



HERA S.p.A.

Registered Office in Bologna, no. 2/4 Viale Carlo Berti Pichat

Share capital Euro 1,421,342,617.00

tax code and registration number with Bologna Register of Companies
04245520376

**BOARD OF DIRECTORS EXPLANATORY REPORT
REGARDING THE MERGER BY INCORPORATION OF
AMGA - AZIENDA MULTISERVIZI S.P.A.
INTO
HERA S.P.A.**

**ON THE MATERIAL OUTLINED IN AGENDA ITEM POINT 3
EXTRAORDINARY PART**

of the Hera S.p.A. extraordinary shareholders' meeting

convened for 23 April 2014 at 10 a.m. on a single call

(explanatory reported drafted pursuant to Article 2501-quinquies of the Italian Civil Code and Article 70, paragraph 2, of the regulation approved through Consob resolution no. 11971 of 14 May 1999 and subsequent modifications)

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Dear Shareholders,

you have been convened in this Extraordinary meeting to deliberate on the planned merger by incorporation in keeping with Article 2501 and the following articles of the Italian civil code (the "Merger") of AMGA - Azienda Multiservizi S.p.A. ("AMGA" or "merged company") into Hera S.p.A. ("Hera" or "merging company" and, together with AMGA, the "Companies participating in the merger").

This report (the "Report") explains, from a legal and economic standpoint, the Merger, describing the elements that make up the plan for the Merger (the "Merger Plan") and, in particular, the criteria for determining the share exchange ratio deriving from the Merger (the "exchange Ratio") in accordance with the provisions of Article 2501-quinques of the Civil Code and Article 70, paragraph 2, of the Regulation approved through Consob resolution no. 11971 of 14 May 1999, as subsequently amended and supplemented (the "Issuers Regulation").

1. EXPLANATION OF THE OPERATION

1.1 INTRODUCTION

AMGA is the parent company of the AMGA Udine Group which, at the date of this report, is partially held by the City of Udine at approximately 58.69%, and carries out the direct and indirect management and development of public services (the so-called multi-utility sector) in the Municipality of Udine area and Province of Udine.

The operation submitted for your approval will take place through the merger of AMGA into Hera, pursuant to Article 2501 and the following article of the Civil Code ("Operation" or "Merger").

Between September 2013 and January 2014 Hera and AMGA initiated a process aimed at defining an industrial integration, which was formalized on 23 January 2014 through AMGA and Hera formed a framework agreement (the "Framework Agreement") that outlines the main terms of the aggregation, regulating the various requirements and conditions necessary to achieve integration between the business groups that refer to the two companies. This process has also involved the participation of the City of Udine as an AMGA major shareholder.

As part of the integration plan, following the merger Hera is expected to begin: (i) transferring into Hera Comm Srl ("Hera Comm") its equity investment in AMGA Calore & Impianti Srl ("AMGA Calore") and its equity investment in AMGA Energia & Servizi Srl ("AMGA Energia"), (ii) transferring into AcegasAps SpA ("AcegasAps") all the organized assets held by AMGA for carrying out its business activities (excluding investments held in AMGA Calore and in Amga Energia) and the equity investments held in the Black Sea Technology Group Company, in Black Sea Company for Compressed gas Ltd, in Energo d.o.o and in Carniacque S.p.A. ("Transferrals to AcegasAps") respectively.

Following transferrals to AcegasAps, the establishment of a "Gas Distribution" department is planned, which will be based in Udine, report directly to the General Manager of AcegasAps and serve to coordinate and oversee all activities related to the "Gas Distribution" sector of the Group Hera in the regions of Friuli Venezia Giulia and Veneto. In addition, (a) AMGA Calore: will maintain its legal autonomy, corporate name and registered offices in Udine and will be the corporate vehicle of the Hera Group in carrying out activities of civil and industrial co-generation, district heating, energy efficiency and renewable thermal and electrical energies in the Friuli Venezia Giulia region, in compliance with the commitments made by the Hera Group to third parties in the provinces of Trieste and Pordenone and pay its own taxes in the geographical jurisdiction of Udine, in accordance with current tax law, and (b) AMGA Energia, will retain its legal autonomy, its corporate name and registered offices in Udine until 31 December 2016.

Under the Framework Agreement, (i) the Hera Group is committed, within 3 years of signing the Industrial Agreement (as defined below) between Hera and the City of Udine, to constructing in Friuli Venezia Giulia at least 3 plants automotive natural gas refueling plants, in accordance with the provisions of Annex D, if located in close proximity to the transportation network and shared with the manager of the service station, (ii) through AcegasAps, Hera is committed to participate in gas calls for tenders in order to win the ATEM contract for Udine 1, Udine 2 and Udine 3.

The Merger, directly involving an issuer of financial instruments listed on an Italian regulated market, is also subject, as established herein, to the provisions of the TUF and the Issuer's Regulation.

In relation to the Merger and pursuant to article 2501-quater of the Italian Civil Code, for Hera the statements of assets and liabilities are the consolidated quarterly report as of 30 September 2013, and for AMGA Multiservizi, the consolidated quarterly report as of 30 September, 2013.

In light of the exchange ratio outlined in Paragraph 5 of this report (below) the Hera extraordinary shareholders' meeting that will be called on to approve the Merger, depending on the exchange rate, will resolve on an increase in the share capital divided in tranches with exclusion of the purchasing option, to a maximum of EUR 68,196,128.00. Consequently, Hera will issue, up to a maximum of 68,196,128 new ordinary shares with a nominal value of Euro 1.00 each and traded on the Milan Stock Exchange organized and managed by Borsa Italian SpA, which will be allocated to shareholders of AMGA in proportion to the current investment each of them holds in the share capital of this company.

As outlined in Paragraph 1.2., the Merger operation is subject to, among other conditions, the requirement that Hera and the City of Udine enter into the following agreements by and no later than the deadline of 24 June, 2014:

- a) an agreement to regulate, among other elements, the prospect industrially developing the operations of AMGA as well as those of the companies comprising the AMGA Group ("Industrial Agreement");
- b) an agreement concerning (i) the governance of AcegasAps, namely the right of the City of Udine to be represented on the Board of Directors of AcegasAps by designating a director and the change of the corporate name from AcegasAps to "ACEGAS- APS- AMGA SpA and/or its acronym, (ii) on the occasion of the renewal scheduled to take effect on 1 January, 2015, the City of Udine's signing the parasocial agreement entered into on 21 December, 2011 between 98 public shareholders of Hera concerning the manner of exercising voting rights and the transfer of the shares held in Hera by those adhering to the agreement, which over time was signed by additional shareholders of the Company as well, effective among 124 Hera public shareholders as of the date of this report (the "Hera Agreement", for more information please refer to the information contained in Paragraph 10 of this report), and (iii) a lock -up commitment on 37,343,661 newly issued Hera ordinary shares that the City of Udine will hold as a result of the Merger; this commitment is made by the City of Udine from the date that these Hera shares are transferred to the City of Udine according to the exchange associated with the Merger and until the municipality itself adheres to the Hera Agreement on the occasion of its renewal (the "Acegas and Lock-up Parasocial Agreement "). In case the City of Udine fails to adhere to the Hera Agreement, the lock-up commitments will be taken on by the City of Udine for a period of 3 years with effect from the date of the allotment of Hera shares.

1.2 THE CONDITIONS PRECEDENT

Pursuant to the provisions of the Framework Agreement, the Merger is conditional upon the occurrence of the following conditions ("Conditions Precedent to Execution"):

- a) a) exemption or approval or non-prohibition of the merger - even with conditions, providing they fall within the limits set out in points (i) , (ii) and (iii)) of this paragraph - by the competent authority (that is, any entity, body or Italian or other state or EU, central or local, legislative, judicial or administrative authority, as required by law including the Italian Antitrust Authority) within the deadline of 23 June 2014 (the "Authorizations"). It is understood that, if the Competent Authority were to prohibit the merger even before the expiry of the above-mentioned deadline, the Framework Agreement will be deemed ineffective. In the event that the Authority were to launch an investigation phase, the Parties shall immediately consult with each other and do their best to overcome any obstacles to the realization of this condition, in particular, if in order to obtain the permissions the Parties consider taking on commitments in relation to the activities of the Hera Group and/or the AMGA Group or in relation to the amendment of the terms and conditions of the Framework Agreement (that is, if these authorities impose restrictions similar in effect to the above commitments) , the parties are obliged in good faith to agree to these commitments and/or changes, provided that these do not result in: (i) a substantial change in the agreements contained therein and/or (ii) significant economic or financial burdens, or more significant risks for one or both

parties or for the companies of their respective groups, and/or (iii) significant changes to the business plan and/or strategies for the development of the Hera Group and/or the AMGA Group;

- b) b) by and no later than 23 April, 2014, the approval of the Merger by the relevant shareholders' meetings of AMGA and Hera;
- c) c) by and no later than 24 June, 2014, the signing of the Industrial Agreement and the Acegas and Lock-up Parasocial Agreement;

The Conditions Precedent to Execution are established in the interests of both parties. The Conditions Precedent to Execution under letter a) above may be waived by Hera if there is the legal basis and in particular if the effectiveness of the Act of Merger remains conditioned by the occurrence of this condition.

1.3 THE ARTICLES OF THE MERGING COMPANY AS A RESULT OF THE MERGER

The Articles of the Merging Company will not change as a result of the Merger, except for whatever changes are necessary to reflect the share capital increase to service the exchange ratio.

Therefore, the Extraordinary Shareholders' Meeting of Hera that will decide on the merger plan will be called on to approve the adoption of the following amendment to the Articles of Association:

- **Article 5: Changes in share capital and number of shares, due to the capital increase to be decided to service the Merger.**

The amendment of the Merging Company Articles of Association will take effect from the date on which the Merger takes effect which, pursuant to the second paragraph of Article 2504 bis of the Civil Code, may also be subsequent to the date of the registering of the merger with the Register of Companies pursuant to the second paragraph of Article 2504 of the civil Code.

2. THE COMPANIES INVOLVED IN THE MERGER

2.1 HERA S.P.A.

2.1.1 COMPANY INFORMATION

The corporate name of the Merging Company is "Hera SpA".

Hera is a joint stock company with its registered offices in Bologna, no. 2/4 Via Carlo Berti Pichat, registered with the Bologna Companies Register as no. 04245520376 and Economic Administrative Index no. BO - 363 550, share capital as of the date of approval of the Merger Plan, amounting to Euro 1,421,342,617 fully paid up, divided into no. 1,421,342,617 ordinary shares with a nominal value of Euro 1.00 each.

Hera ordinary shares are traded on the Milan Stock Exchange, organized and managed by Borsa Italian SpA ("Italian Stock Exchange").

2.1.2 CORPORATE PURPOSE

Hera's corporate purpose is defined in Article 4 of the Articles of Association, which reads as follows:

"4.1 The purpose of the company is to carry out, in Italy or overseas, directly or indirectly, through participations in any kind of company, public body, consortium or enterprise, public services and public utility services in general and in particular:

(a) integrated management of water resources and therefore (i) abstraction of fresh water, transport, treatment, distribution and sale of water for whatever use and in whatever form, (ii) waste water collection, treatment and recovery (iii) construction and management of sewage waste treatment plants (iv) design, construction and management of artificial storage and dams;

(b) integrated management of energy resources and therefore (i) production, transport, transformation, distribution, purchase and sale of electricity, (ii) production, transport, manipulation, distribution, purchase and sale, exploitation and storage of gas, (iii) production, transport and sale of heat for industrial and domestic use and (iv) installation and running of thermal plants in buildings and possible supply of heat and/or fuel, (v) control on thermal plants in compliance with

Presidential Decree 412/93, (vi) realization and management of cogeneration energy/heat, (vii) realization and management of thermal stations and conditioning plants;

(c) management of environmental services and therefore, for example, (i) collection, transport, intermediation and commercialization of urban waste, and special dangerous and non-dangerous waste, including differentiated waste, as well as the cleaning of public areas and (ii) construction and management, including on behalf of others, of plants for the collection, recycling, treatment and recovery of waste and (iii) reclamation of contaminated areas.

4.2 The company's purpose is, in compliance with the principles of economy and profitability, as well as confidentiality of corporate data, to promote competition, efficiency and suitable levels of quality in the provision of its services::

a) ensuring neutrality in managing the infrastructure needed to develop a free energy market;

b) preventing discrimination when accessing commercially sensitive information;

c) preventing the transfer of resources between different segments.

4.3 The company operates in integrated or in any case connected sectors, with the objective of producing goods and activities with the aim of satisfying collective needs and requirements, co-operating to promote the economic and civil development of the people, their organizations and the local communities to which they belong. For this purpose, for example purposes only, the company can operate, including through planning and construction, in the services destined to increase the quantity and quality of the infrastructures servicing the multitude of expressions of economic, social and private life of the citizens and in particular in the following sectors:

(i) remote networks, information networks and telecommunication services;

(ii) installation and provision of telecommunication networks on our own behalf and on behalf of third parties relating to those services;

(iii) public lighting installations;

(iv) traffic lights and other lighting signals;

(v) management on our own behalf or on behalf of third parties of funeral and cemetery activity and related activity (transport, service, removal, cremations, maintenance and construction of cemetery sites, necropsy services);

(vi) consulting, assistance, planning, realisation and services in the energy, water and environment fields;

(vii) consulting, assistance and services in the laboratory analysis field;

(viii) services for the protection of land and water, including through the elaboration, realisation and management of projects organised for this purpose

(ix) organisation of courses for the provision and application of scientific, technological, management and organisational resources in the fields of interest;

(x) obtaining of construction licenses and the carrying out of public works;

(xi) transportation of materials on behalf of third parties, related to the activities of sewage and purification as well as goods and materials from production processes and/or industrial, commercial, craft and domestic activities;

(xii) plan, realise, and manage gardens, parks, fountains, recreational areas, roads, street furniture and road lighting and realisation of the ecological inspectorate in the territory;

(xiii) hygiene in the environment through anti-parasite, sanitary and hygiene activities in related matters and in food;

(xiv) bottling and retail or wholesale selling of drinking water, either directly or indirectly. ;

4.4 The company also has the purpose to exercise, directly and/or indirectly, through participations in companies of whatever kind, public body, consortium or enterprise, of any other economic activity connected by an instrumental link, as accessory or complementary to the previous activities indicated.

4.4 The company also has the purpose to exercise, directly and/or indirectly, through participations in companies of whatever kind, public body, consortium or enterprise, of any other economic activity connected by an instrumental link, as accessory or complementary to the previous activities indicated.

4.6 The company can perform all of the operations necessary or useful for the attainment of the corporate purpose; on an example basis this may be operations related to fixed and non-fixed assets, commercial, industrial or financial operations, or participating in public tenders for the management of local public services or other useful services for the achievement of the objectives, as well as any activity connected to the corporate purpose, with the exception of the collection of savings from the

public and the provision of credit in compliance with Legislative Decree 385/1993 or subsequent integrations or modifications.

4.7 In any case, the company is expressly prohibited from the professional exercise of investment services to the public in compliance with Legislative Decree 58/1998 and subsequent integrations and modifications and any other activity reserved by the legislation in force to those registered with professional bodies or subject to specific legislation or qualifications by law.

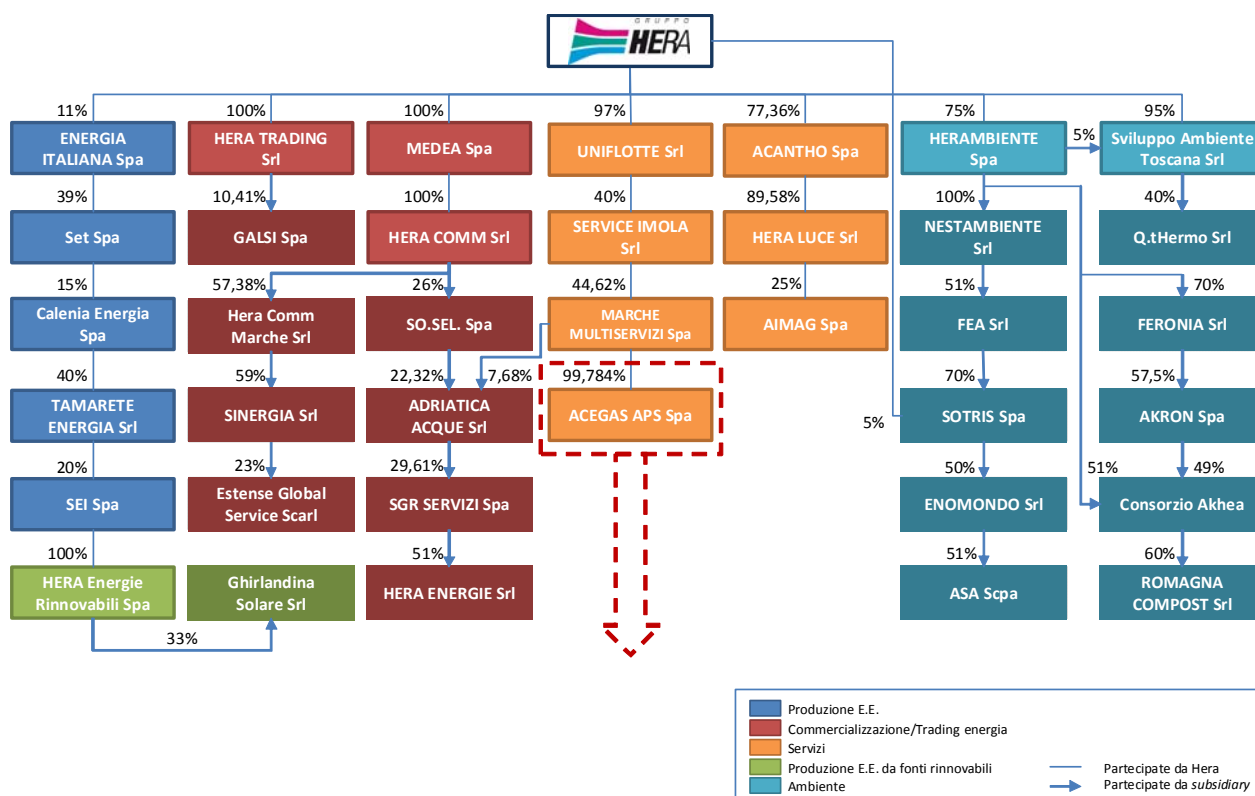
4.8 The company can, finally, take participations and interests in other companies, consortia and enterprises, either Italian or foreign, having a purpose similar, related or complementary to our own or even having a different purpose as long as the participations or interests do not substantially modify the corporate purpose, and can provide guarantees and/or liens for obligations, including those related to third parties."

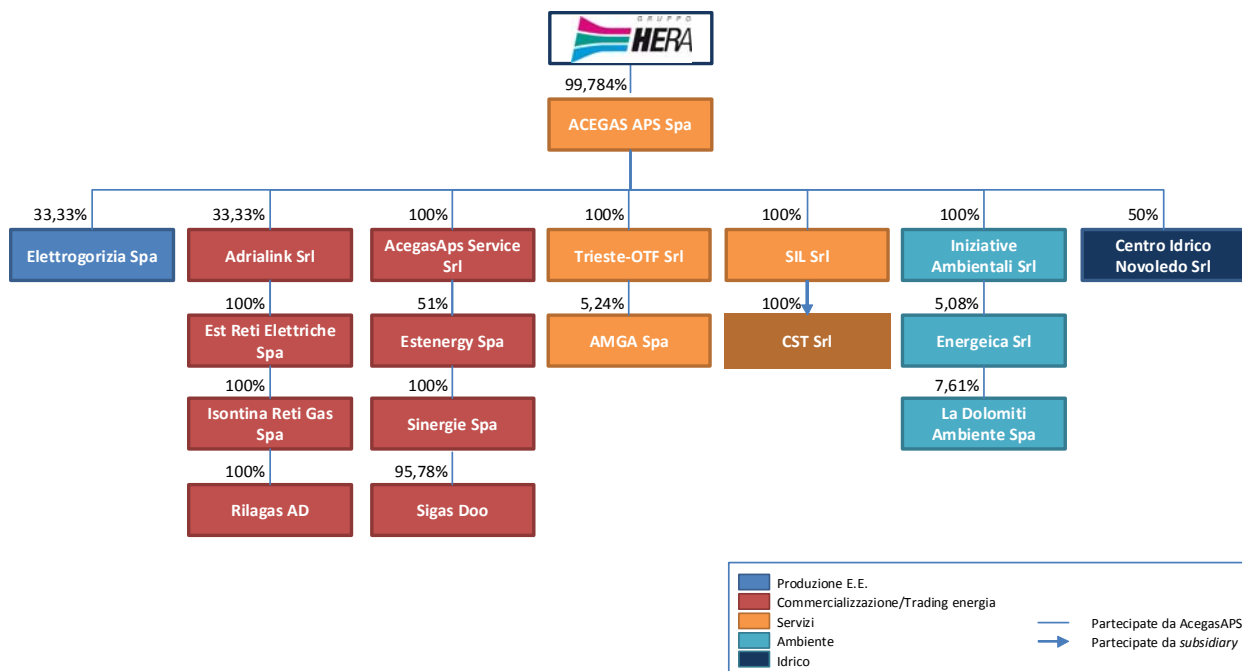
2.1.3 THE HERA GROUP

Hera does not belong to any group and no person exercises control over the Merging Company, pursuant to Article 93 of Legislative Decree no. 58 of 24 February 1998, as amended and supplemented ("TUF").

Additionally, Hera, is not subject to direction or coordination.

The diagrams below provide a synthetic representation of the subsidiaries and associates of the Merging Company as of the date of this Report.





2.1.4 THE ACTIVITY OF HERA AND HERA GROUP

Hera is a leading national operator in the management and development of public services in Italy.

The Hera Group was born in 2002 out of the merger/division of 11 local public service companies operating in the Emilia Romagna area, and in the subsequent years continued its territorial growth in order to expand its core business. This growth was possible thanks to the evolution of the company's organizational structure.

The Hera Group operates in approximately 200 municipalities in the Emilia-Romagna region, in the provinces of Modena, Bologna, Ferrara, Forlì-Cesena, Ravenna and Rimini covering an area of approximately 2.5 million inhabitants. In addition, the Hera Group has a presence in municipalities of the Provinces of Pesaro-Urbino, Trieste, Padua, Gorizia and in the Bulgarian region of Zapad (West Bulgaria).

Hera's business portfolio is diversified to ensure optimal regulatory risk diversification in that it includes both regulated services and those managed through a "concession scheme" (such as the integrated water system, the collection and disposal of municipal waste, and the distribution of electricity and natural gas) as well as activities under management in "conditions of free competition" (such as the sale of natural gas and electricity, disposal of hazardous waste and industrial and other business activities).

The Hera Group operates principally in the management and distribution of water, electricity and gas, in the collection, treatment and disposal of waste, in the sale of energy and the delivery of key municipal services such as public lighting, telecommunications and district heating.

The following table provides the overall revenues of the Hera Group, resulting from the sum of the income items under "Revenues" and "Other operating income", broken down by operational sector, in relation to the three-month periods ending September 30, 2013 and 2012 and for the fiscal years ending December 31, 2012 and 2011.

Breakdown of Revenues for the Hera Group by Activity Area

<i>(in millions of Euros)</i>	Period ending 30 September		Fiscal year ending 31 December	
	2013	2012	2012	2011
Gas and District Heating sector	1,182.9	1,224.0	1,734.2	1,457.0
Electrical Energy Sector	1,088.2	1,223.7	1,602.8	1,524.4
Water sector	533.9	450.3	608.2	588.4
Environmental Sector	604.7	482.0	641.1	636.0
Other Services	124.2	56.0	76.6	75.3
Structure	14.6	15.2	33.4	34.8
Total Revenues	3,548.6	3,451.0	4,696.3	4,315.9

Hera's operational portfolio is characterized by a strong presence of regulated activities, which as of 31 December, 2012 accounted for approximately 58% of total revenues, in line with the historical average of the last three years, which was 54%. As a result of this presence of regulated activities, Hera benefits from an optimal balance between regulated and open-market activities.

In particular, the Hera Group is active in the fields below.

Environmental Sector

The Hera Group is a major player in the field of municipal waste management in Italy. These activities include undifferentiated and differentiated waste collection, recovery and disposal, and urban sanitation and environmental services such as management and maintenance of public parks, street furniture, cleaning up graffiti, cleaning soiled sections of buildings and monuments and removing unauthorized posters.

The Hera Group manages the entire cycle of recovery and recycling through synergistic collaboration between operational environmental services (waste collection, street sweeping and street cleaning and industrial cleaning) and waste treatment (initiating processes re-use, disposal and/or recovery) with operations in six provinces of Emilia Romagna (Bologna, Modena, Rimini, Forlì-Cesena, Ferrara, Ravenna), in the Province of Pesaro-Urbino through Marche Multiservice and, lastly, in the provinces of Padua, Trieste and Isernia.

The Hera Group provides waste management services in approximately 200 municipalities, serving a population of over 3.3 million inhabitants.

Thanks to the Group's more than 80 facilities, including seven waste-to-energy plants located in the province of Emilia Romagna, one in Padua, one in Trieste and one in Molise as well as 12 plants for the treatment of differentiated waste, the Hera Group is able to meet the demand for the treatment and valorization of all types of waste, providing, among its other activities, compliance with complex needs in terms of the disposal and decontamination of production sites.

In 2012, the Hera Group collected over 2,032 thousands of tons of waste and treated more than 3,675 thousands of tons of waste, of which over 1,301 thousand tons were converted into energy. The production of energy from waste amounted to 676 GWh.¹

Water sector

The Hera Group operates in the management of the integrated water cycle (drinking water, water purification and sewage) in six provinces of Emilia Romagna (Bologna, Modena, Ferrara, Ravenna, Forlì-Cesena and Rimini), in the Province of Pesaro-Urbino and in the municipalities Padua, Abano Terme Trieste and Muggia on the basis of agreements established with various ATOs.

The Hera Group provides drinking water throughout the Province of Trieste, while collection, transport, treatment and drinking water services are also provided for the municipalities of Duino Aurisina (including distribution in part of the area), Monrupino, San Dorligo della Valle and Sgonico. In addition, untreated water is

¹ Hera and Acegas-APS Groups aggregated data before the merger-by-incorporation of Acegas-Aps Holding S.r.l. into Hera ("Acegas Merger")

supplied to the City of San Pier d'Isonzo in the Province of Gorizia. The Hera Group sets the balance of supply and administrative management of the integrated water cycle in 15 municipalities in the Saccisica area of the Province of Padua and the City of Cona in the Province of Venice.

Water Sector activities include the design, construction, operation, maintenance and extraordinary maintenance of networks and facilities associated with services of water supply, sewage and urban waste water treatment, as well as quality control of water destined for purification, drinking water and waste water drainage. In terms of drinking water, the services offered include the collection, transport, treatment, supply and distribution of drinking water. Sewage services include the collection, removal and treatment of wastewater. Finally, to complete the water cycle, after being used, the water is channeled through a network of primary and secondary pipes to reach the cesspools that flow into sewage treatment plants.

The water network, like all managed networks, is currently governed by a remote control system built in 2008. Remote network monitoring has allowed the Group to optimize processes of maintenance and supervision in order to ensure greater efficiency and lower operating costs. As of 31 December 2012, the Hera Group had water network stretching 34,146 kilometers, and provided over 400 million cubic meters of water for domestic and industrial use to more than 1,718,670 customers.²

In addition, as of 31 December 2012 the Hera Group's facilities associated with water services included a sewer network covering approximately 18,922 kilometers and 852 wastewater treatment plants.³

Gas and District Heating sector

The Hera Group is active in the distribution (including the operation and maintenance of infrastructure under concession, with a view to improving and optimizing the service), sales and trading of natural gas and the management of networks, in order to ensure the transportation of gas volumes and the free exchange of energy products between sellers and customers, as well as the management of district heating.

The Hera Group companies are dealers for the distribution of natural gas in more than 160 municipalities located in the six provinces of the Emilia Romagna region where it operates and in the Province of Pesaro-Urbino, in the municipalities of Trieste Duino Aurisina, Monrupino, San Dorligo della Valley, Sgonico, Trieste, in the Padua area in the municipalities of Albignasego, Cadoneghe, Galzignano Terme, Padua, Ponte San Nicolò, Saonara, Vigodarzere and Vigonza and, lastly, in the Province of Gorizia through Isontina Reti Gas.

The Hera Group operates in the Ambiti Territoriali Minimi ("ATEM") of Bologna 1 - Bologna City and plant, Bologna 2 - the Province, Modena 1 - the North, Modena 2 - the South, Ferrara, Rimini, Ravenna, Forlì-Cesena, Pesaro Urbino, Trieste, Padova 1 - the City of Padua and the North, Padua 2 and Gorizia.

As of 31 December 2012, the Hera Group distributed over 2,877 million cubic meters of gas and had approximately 1.5 million delivery points and 16,410 km of network.⁴

In the natural gas sales sector, in 2012 the Hera Group sold over 3,696 million cubic meters to approximately 1,250,000 customers (including the proportional data from Est Più Srl). The Hera Group operates in the sale of natural gas to final customers through the companies of the Group Hera Comm Srl and Estenergy SpA.⁵

For the purchase of raw materials, unstable market conditions have led the Hera Group to pursue prudent and flexible gas supply policies, seizing the opportunities created by the slow process of creating and developing raw material import capabilities and the Italian and international wholesale market. The Hera Group has a longstanding gas importation capacity amounting to nearly 500 million cubic meters per year, through the Trans Austria Gas (TAG) pipeline that transports natural gas from Russia.

In addition, the Hera Group has progressively diversified internal (national) sources, pursuing flexibility through year-long contracts. Hera Trading S.r.l. is the Group company, dedicated to the trading activities, that enabled the Hera Group to begin its direct operations in Baumgarten (Austria) and other points of interconnection (i.e. HUBs) in Europe.

² Hera and Acegas-APS Groups aggregated data before the Acegas Merger

³ Hera and Acegas-APS Groups aggregated data before the Acegas Merger

⁴ Hera and Acegas-APS Groups aggregated data before the Acegas Merger

⁵ Hera and Acegas-APS Groups aggregated data before the Acegas Merger

The Hera Group also operates in the sector of district heating, i.e. the transformation of energy into heat. As part of its district heating activities, the Hera Group provides heat for urban heating and hygienic-sanitary applications, heat that is generated by thermal power and cogeneration plants. The district heating network has been developed by the Hera Group in the urban areas of the Emilia Romagna area that it serves, including the areas in close proximity to waste-to-energy and cogeneration plants; in this way it is able to exploit sources of heat that would not otherwise be utilized.

As of 31 December 2012, the production of thermal energy for use by the district heating networks generated by the Group amounted to 622,461 MWh.

Energy Sector

The Hera Group operates in the purchase, sales, distribution and production of electricity. The Hera Group has developed its business strategy, the so-called "dual fuel" strategy which, through the combined commercial offering of electricity and gas, has allowed the Group to develop the electricity market at rapid growth rates, both by cross-selling to existing customers and by expanding to serve new areas, such as Piedmont, Apulia, Lombardy, Tuscany and Lazio, where the Hera Group has successfully been entrusted with the so-called "safeguard" service until 31 December 2016, in accordance with Law no. 125/2007.

Commercial development in the electricity sector has been accompanied by a parallel process of cautious development in power generation, in order to sustainably manage customer demand.

The Hera Group is active in the production of electricity through its own waste-to-energy plants, the 80 MW gas cogeneration power plant in the area of Imola (BO), that ensures the autonomy of the Province in the event of a blackout on the national network, and the combined cycle gas turbine plant owned by associated company Elettrogrovia SpA, of which Hera holds 33%. Another event of note is the 40% acquisition of Tamarete Energia Srl, a company based in Ortona (CH) that in 2010 completed the construction of a 104 MW combined cycle plant.

Finally, the energy generation capabilities of the Hera Group have involved the production of over 140 MW of clean energy from waste-to-energy plants and an additional 13 MW from biomass power plants, in addition to the recent development of small-scale biogas generation and photovoltaic systems that complement the Group's diversified portfolio of sources.

The area of electricity distribution activities has reported major developments thanks to the merger by incorporation of Meta SpA, which occurred in 2005, the acquisition of the Enel electricity network in the Province of Modena in 2006, and obtaining control of Est Reti Elettriche in 2013, which holds the contract to distribute electricity in the Gorizia area. The Hera Group also distributes electricity in the area of Trieste through a contract issued by the "Ministry of Economic Development" which expires in 2030, thereby providing electricity distribution services to the users connected to the network. The energy is distributed in both low voltage (230/400 volts) and medium voltage (2,000, 10,000, 20,000, 27,500 volts), for both domestic and industrial users. The electrical distribution system of the Hera Group has reached a size of approximately 12,000 km.

Additionally, the Hera Group ensure the security and continuity of the supply, providing for the management and maintenance the entire electrical network and the plants connected to it.

As of 31 December 2012, the Hera Group's electricity production amounted to approximately 1,400 GWh, while sales of electricity totaled over 3,047 GWh, on a customer base of more than 688,000 customers.⁶

Other Businesses: Telecommunications, Public lighting and other services

The Hera Group also operates in the fields of Public Lighting, Telecommunications and Plant Management and Cogeneration in the six provinces of Emilia Romagna and the Provinces of Padua, Trieste and Gorizia.

The Hera Group is one of the country's main operators in the sector of Public Lighting, having managed over 420 thousand lighting points, and more than 11 thousand traffic lights in 2012. The Hera Group is able to offer its clients a comprehensive Global Service comprising all the activities related to the system of public lighting, which can be summarized as follows:

⁶ Hera and Acegas-APS Groups aggregated data before the Acegas Merger

- Upgrading the system: the system is inspected and analyzed in order to identify issues in terms of safety, regulatory compliance and energy efficiency. On the basis of this, the necessary upgrades are designed and carried out. In particular, there is a focus on improving the energy efficiency of the system, which consists of installing high-efficiency lighting (LEDs) and devices to regulate the flow of light in keeping with actual traffic conditions and the needs of the local area;
- system management: this consists in supplying electricity and constantly monitoring the system, taking advantage of the Group's extensive presence throughout the local area and remote monitoring systems, supplemented by the call center service that is always available for citizens to report malfunctions and anomalies.

In the field of Plant Management and Cogeneration, the Group has developed a series of services that are complementary and synergistic in relation to its business activities, such as:

- energy service (targeting condominiums and PA):
 - updating, managing and operating condominium systems by installing centralized equipment for maximum energy efficiency, distributing the thermal energy produced to individual apartments;
 - individual thermal energy accounting through the installation, management and remote reading of heating metering devices on individual radiators, with a heating cost division service for each individual residential unit based on actual consumption, thereby generating awareness among users and avoiding waste;
- cogeneration: feasibility studies, design and construction of cogeneration/trigeneration plants for individual companies with multi-year provision of electricity and heat/cooling;
- energy efficiency service: advice for obtaining and exploiting Energy Efficiency Certificates (TEE) for third-party projects.

In 2012, the complementary energy services described above served 328 customers, of which 275 customers for the Energy Service, 20 for cogeneration and 33 for energy efficiency. As part of these services, in 2012 the Hera Group managed over 450 MW of thermal power, 31 MW of electrical power and 3 MW of cooling power. This power corresponds to energy sold in the amount of approximately 498 GWh, 191 GWh and 2 GWh.

2.1.5 SUMMARY OF THE MOST RELEVANT DATA FROM THE ACTIVITY OF THE MERGING COMPANY

Below are some historical, economic and financial data from Hera and the Hera Group derived from the financial and consolidated financial statements for the years ending 31 December 2010, 2011 and 2012, as well as the quarterly financial report of September 30, 2012 and 2013.

Hera S.p.A. economic-financial data - 2010-2012 and 9M 2013

Hera S.p.A. (€ m)	2010	2011	2012	12-11 YoY %	9M 2012	9M 2013	9M13-9M12 YoY %
Valore della Produzione	1.491,3	1.528,0	1.547,6	1,3%	1.118,4	1.122,7	0,4%
Costi	(1.184,9)	(1.208,1)	(1.206,5)		(874,2)	(875,8)	
Margine Operativo Lordo (EBITDA)	306,4	319,9	341,1	6,6%	244,3	247,0	1,1%
Amm.ti e Acc.ti	(159,2)	(166,4)	(171,7)		(122,1)	(126,2)	
Risultato Operativo	147,2	153,5	169,4	10,4%	122,2	120,8	(1,2%)
Oneri Finanziari e Straordinari	(16,5)	(35,7)	(28,4)		(6,5)	7,8	
Risultato Ante Imposte	130,7	117,8	141,0	19,7%	115,7	128,6	11,1%
Imposte	(6,6)	(29,9)	(24,8)		26,4	27,3	
Risultato Netto	124,1	87,9	116,2	32,2%	89,4	101,2	13,3%
Posizione Finanziaria Netta (PFN)	1.562,4	1.534,7	1.484,8		1.512,8	1.591,6	
Patrimonio Netto	1.684,5	1.677,2	1.679,8	0,2%	1.672,9	1.943,7	16,2%
PFN/EBITDA	5,1x	4,8x	4,4x				

Hera Group economic-financial data - 2010-2012 and 9M 2013

Gruppo Hera (€ m)	2010	2011	2012	12-11 YoY %	9M 2012	9M 2013	9M13-9M12 YoY %
Valore della Produzione	3.877,3	4.315,9	4.696,3	8,8%	3.451,0	3.548,6	2,8%
Costi	(3.270,0)	(3.671,1)	(4.034,3)		(2.983,1)	(2.951,4)	
Margine Operativo Lordo (EBITDA)	607,3	644,8	662,0	2,7%	467,9	597,2	27,6%
Amm.ti e Acc.ti	(291,8)	(310,3)	(326,6)		(231,0)	(302,6)	
Risultato Operativo	315,4	334,5	335,4	0,3%	236,9	294,5	24,3%
Oneri Finanziari e Straordinari	(109,8)	(113,2)	(128,7)		(95,5)	(37,4)	
Risultato Ante Imposte	205,6	221,2	213,4	(3,5%)	141,4	257,2	81,9%
Imposte	(63,6)	(94,5)	(79,1)		(64,5)	(84,3)	
Risultato Netto	142,1	126,8	134,4	6,0%	76,8	172,8	125,0%
Competenze di Terzi	24,8	22,2	15,7		9,5	11,2	
Risultato Netto del Gruppo	117,2	104,6	118,7	13,5%	67,3	161,6	140,1%
Posizione Finanziaria Netta (PFN)	1.860,2	1.987,1	2.216,6		2.216,6	2.776,4	
Patrimonio Netto	1.870,2	1.879,4	1.894,9	0,8%	1.877,3	2.201,8	17,3%
PFN/EBITDA	3,1x	3,1x	3,3x				

Note: 9M 2013 financial expenses include non-recurring and non-operating income of € 74.8 million

2.2 AMGA - AZIENDA MULTISERVIZI S.P.A.

2.2.1 COMPANY INFORMATION

The corporate name of the merged company is "AMGA - AZIENDA MULTISERVIZI S.p.A."

AMGA is a joint stock company with its registered offices in Udine, no. 60 Via del Cotonificio, registered with the Udine Companies Register as no. 02120060302, share capital as of the date of approval of the Merger Plan, amounting to Euro 65.737.000,00 fully paid up, divided into 131,474 ordinary shares with a nominal value of Euro 500.00 each.

2.2.2 CORPORATE PURPOSE

AMGA's corporate purpose is defined in Article 4 of the Articles of Association, which reads as follows:

"The company, in order to ensure integrated governance and the saving of natural resources for the protection and improvement of environmental quality in the local in which it operates, has as its purpose:

- a) *The service of gas distribution and the entire energy resource cycle;*
- b) *the integrated management of the entire water cycle, from collecting and distributing drinking water to collecting, transporting and purifying wastewater for multiple uses, to sewage and purification services*
- c) *the production and distribution of electricity, including from renewable and secondary sources;*
- d) *the production and distribution of heat; e) public lighting services and the management of traffic lights;*
- f) *the construction and management, including commercial, of networks and internet and telecommunications services including e-commerce, of technical systems in public and private buildings as well as the production and marketing of goods and services in the information technology sector;*
- g) *the maintenance of public spaces and green areas;*
- h) *waste collection including recycling and the storage, treatment, transportation and disposal of urban, special, toxic-hazardous solid waste;*
- i) *the research, design, construction, management of technologies and systems (including individually) in the activity areas described above.*

The company will also carry out any other operation or service, including marketing associated with or related to the activities listed above without exception, as well as the construction of infrastructure and other construction projects that do not fall under the statutory responsibilities of other agencies, in accordance with current state and/or regional legislation. <

The company will implement and manage the assets outlined in this corporate purpose directly, "on behalf of", under contract, through tender or in any other form, also at the request of third parties, be they public or private entities, including non-shareholders.

The company commits to providing - including via the services charter - information for users and to ensuring citizens' access to information concerning the services managed within the scope of its responsibility, the technologies being employed and how facilities operate.

The company, on a non-prevailing basis, not in relation to the public, and with the exception of the reserved activities established by Legislative Decrees 385/93 and 58/98 and subsequent addendums and modifications, is allowed to perform all real estate, moveable and financial asset operations necessary or useful to the achievement of its primary corporate purpose.

To this end, , the company:

a) may grant sureties and promissory notes and allow the registration of mortgages on real estate and provide any other real and/or personal guarantees for its own or third party debts and bonds.

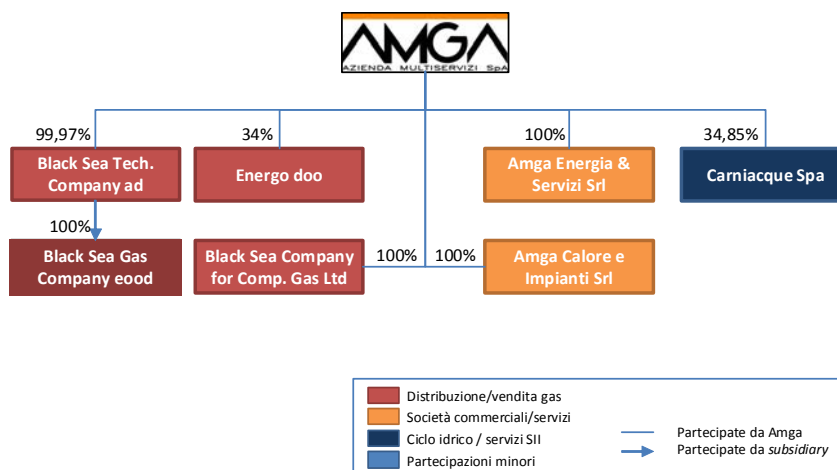
b) may acquire stakes, interests or shares including equity shares in other companies. Operations to acquire shares for an amount exceeding € 1,000,000.00 (one million point zero zero) must be authorized by the Shareholders' Meeting. "

2.2.3 THE AMGA GROUP

AMGA does not belong to any group; the City of Udine exercises control over the Company pursuant to Article 2359 of the Civil Code.

Additionally, AMGA is not subject to direction or coordination.

The diagrams below provide a synthetic representation of the subsidiaries and associates of the Merged Company as of the date of this Report.



2.2.4 THE ACTIVITY OF AMGA AND THE AMGA GROUP

AMGA is the multi-utility company of the City of Udine. In particular, AMGA and the group's other companies operate in the distribution and sale of gas, in electricity sales, in plant and cogeneration management and in the sector of public lighting. In the past, AMGA also managed integrated water services, however, in December of 2013, the AMGA completed the divestiture of its business division related to this activity to the Consorzio per l'Acquedotto del Friuli Centrale ("CAFC").

AMGA's geographical coverage extends over the City and Province of Udine, but its natural gas distribution and sales service goes beyond this area to also cover some countries of the Balkan area (Bulgaria and Croatia).

In particular, the AMGA Group is active in the fields below.

Gas Sector

The main area of activity of the AMGA group is the distribution and sale of natural gas. In particular, the group holds contracts for gas distribution in three geographical areas in the Province of Udine and in the geographical area of the Province of Pordenone.

As of July 2012, AMGA has also taken on the management of the distribution of gas in an additional fourteen locations in the Udine's Comunità Collinare (Udine Area 1 - the North) for an additional 15,000 users, approximately. Including these contracts as well, AMGA currently manages a gas distribution network of over 2,550 km, which serves 86 local areas and 153,827 users (as of the end of 2012).

In addition, the AMGA Group sells natural gas on the open market and protected market. At the end of 2012, through its subsidiary AMGA Energia & Servizi, the company sold 266,235 smc/1000 of natural gas to 90,161 final customers.

The main operating data for this business segment as of 31 December 2012 are shown in the following table.

Main operational data 2011-2012 – Gas sales sector

Principali Dati Operativi 2011-2012 - Vendita Gas Naturale				
Gas	Unità di Misura	2011	2012	Var. %
Gas in stoccaggio a fine periodo	Sm3/1000	32,585	15,014	-53.9%
Gas venduto a Operatori di Sistema	Sm3/1000	11,514	10,433	-9.4%
Gas venduto a Clienti Finali	Sm3/1000	230,308	255,802	11.1%
Utenti attivi	Numero	91,455	90,161	-1.4%

AMGA is engaged in the distribution and sale of natural gas in Bulgaria through the Black Sea Technology Company (hereinafter "BSTC"), a company subject to Bulgarian law and based in Varna (Bulgaria). BSTC initially managed contracts for gas distribution in the cities of Dobrich and Targovishte. In 2004, BSTC participated in and won the tender for awarding contracts in the Bulgarian regions of Moesia and Dobruja, which comprise the cities already served under contract. Overall, the market share is approximately 10% of the gas market in Bulgaria. The main operational data of BSTC as of 31 December 2012 are highlighted in the following table.

Main operational data – Bulgaria

Principali Dati Operativi 2011-2012 - BSTC				
Gas	Unità di Misura	2011	2012	Var. %
Volumi gas venduti	Sm3/1000	52,113	49,416	-5.2%
Volumi gas distribuiti	Sm3/1000	50,345	49,028	-2.6%
Utenti attivi (domestici)	Numero	6,433	6,840	6.3%
Lunghezza rete di distribuzione	Km	390	405	

Electrical Energy Sector

AMGA sells electrical energy on the open market and protected market. At the end of 2012, through its subsidiary AMGA Energia & Servizi, the company sold 1.363.481 MWh of electricity to 13,686 final customers. The main operational data for this business segment as of 31 December 2012 are highlighted in the following table.

Main operational data 2011-2012 – Electrical Energy sales sector

Principali Dati Operativi 2011-2012 - Vendita Energia Elettrica				
Energia Elettrica	Unità di Misura	2011	2012	Var. %
Elettricità venduta a Operatori di Sistema	MWh	80,734	84,401	4.5%
Elettricità venduta a Clienti Finali	MWh	1,080,839	1,279,080	18.3%
Utenti attivi	Numero	11,258	13,686	21.6%

Plant Management and Cogeneration

Through its subsidiary AMGA Calore & Impianti, AMGA is engaged in the plant management and cogeneration sector, and in particular the design, construction and operation of cogeneration plants for combined heat and electricity production. Activities related to the sales of heat and electricity as well as sales of energy certificates may be associated with this activity.

The company operates as an ESCO (Energy Service Company) in the field of constructing power plants aimed at optimizing energy production processes and the reduction of primary consumption, in particular through the use of alternative or assimilated energy sources. This activity is pursued through investments by the company, through projects called "RENOVA". In this sector the company has succeeded in creating a project focused on energy efficiency and the recognition of two renewable energy plants.

The first significant example of a cogeneration plant was built in the City of Udine Tavagnacco (UD), within the HYPO Bank headquarters complex. In 2011, a second cogeneration-type bioliquid plant was brought online in the municipality of Pozzuolo del Friuli and given the name "Serre Altieri."

In 2012, work continued on the construction of a trigeneration plant in Tavagnacco, located in a major shopping center and called "Arteni 3". Finally, construction proceeded on the trigeneration plant and district heating network in the municipality of Cividale del Friuli at the complex called "Banca di Cividale," which came online in the first half of 2013.

Public Lighting

AMGA manages the network of public lighting for the City of Udine and 13 other municipalities in the province, which comprise a total of 21,981 lighting points and 987 traffic lights.

2.2.5 SUMMARY OF THE MOST RELEVANT DATA FROM THE ACTIVITY OF THE MERGED COMPANY

Below are some economic and financial data from AMGA and the AMGA Group drawn from the financial and consolidated financial statements for the years ending 31 December 2010, 2011 and 2012, as well as the quarterly financial reports of September 30, 2012 and 2013.

AMGA Azienda Multiservizi S.p.A. economic-financial data - 2010-2012 and 9M 2013

AMGA Azienda Multiservizi S.p.A. (€ m)	2010	2011	2012	12-11 YoY %	9M 2012	9M 2013
Valore della Produzione	39,5	39,7	41,2	3,8%	N.D.	32,6
Costi	(25,6)	(25,4)	(25,8)			(19,9)
Margine Operativo Lordo (EBITDA)	13,9	14,3	15,4	7,7%	N.D.	12,7
Amm.ti e Acc.ti	(7,3)	(7,4)	(9,0)			(7,0)
Risultato Operativo	6,6	6,9	6,4	-7,2%	N.D.	5,7
Oneri finanziari e straordinari	0,9	(0,4)	(1,3)			(0,8)
Risultato Ante Imposte	7,5	6,5	5,1	-21,5%	N.D.	4,9
Imposte	(2,6)	(4,2)	(3,0)			(2,6)
Risultato Netto	4,9	2,3	2,1	-8,7%	N.D.	2,3
Posizione Finanziaria Netta (PFN)	27,6	22,8	42,3			29,9
Patrimonio Netto	87,4	85,2	85,2	0,0%	N.D.	87,5
PFN/EBITDA	2,0x	1,6x	2,7x			

AMGA Azienda Multiservizi Group economic-financial data - 2010-2012 and 9M 2013

Gruppo AMGA Multiservizi (€ m)	2010	2011	2012	12-11 YoY %	9M 2012	9M 2013
Valore della Produzione	200,9	284,1	366,8	29,1%	N.D.	190,3
Costi	(174,4)	(261,9)	(338,2)			(164,4)
Margine Operativo Lordo (EBITDA)	26,5	22,2	28,6	28,8%	N.D.	25,9
Amm.ti e Acc.ti	(10,3)	(10,8)	(16,6)			(11,5)
Risultato Operativo	16,2	11,4	12,0	5,3%	N.D.	14,4
Oneri finanziari e straordinari	(3,5)	(3,8)	(3,0)			(1,5)
Risultato Ante Imposte	12,7	7,6	9,0	18,4%	N.D.	12,8
Imposte	(5,7)	(5,5)	(4,9)			(6,0)
Risultato Netto	7,0	2,1	4,1	95,2%	N.D.	6,9
Competenze di Terzi	0	0	0			0
Risultato Netto del Gruppo	7,0	2,1	4,1	95,2%	N.D.	6,9
Posizione Finanziaria Netta (PFN)	56,9	81,7	83,5			66,9
Patrimonio Netto	93,0	90,7	92,7	2,2%	N.D.	99,6
PFN/EBITDA	2,1x	3,7x	2,9x			

3. REASONS FOR THE OPERATION

The AMGA and Hera groups have in common many industrial and historical features in terms of ownership structure and developmental trajectory, which favor an aggregation operation bringing together the two companies.

The integration between the two enterprises through the merger by incorporation of AMGA into Hera, aims at maximizing the value of the company's respective industrial structures in the sectors of gas and electricity, public lighting and plant management and cogeneration as well as related activities, both in terms of scale and in terms of covering the business lines, in part by sharing the technology platforms and know-how developed by the Hera Group with AMGA.

In addition, following the successful operation of corporate optimization in the Province of Gorizia area, aggregation with AMGA represents a confirmation and step forward in the aggregation process underway in the regions of Veneto and Friuli Venezia Giulia, which will be able to exploit the existing industrial and operational presence consolidated thanks to the integration of AcegasAps and the companies present in the Province of Gorizia area into the Hera Group, extending the new Group's capacity to meet the needs of the local areas.

In particular, the design of the AMGA aggregation corresponds to Hera's established industrial rationale, which is defined by elements such as:

- pursuing growth consistent with the trajectory achieved thus far, enhancing the presence already established in Friuli Venezia Giulia, with the possibility of rapid industrial integration thanks to the numerous organizational and operational similarities with the local dimension of AcegasAps and the commercial dimension of Hera Comm;
- integrating the industrial skills and management developed by AMGA in the distribution of gas, with an established position in two regions that hold strategic and synergistic relevance for the Hera Group into the Hera Group's operations in the regions of Veneto and Friuli Venezia Giulia,
- achieving a strong scale and industrial complementarity in the energy sector by strengthening of the Hera Group's competitive position especially in the gas segment, enhancing AMGA's customer base through the implementation of dual-fuel and cross-selling strategies and the sharing of Hera's know-how and upstream strategy. This increase in the critical mass is also pursued in the public lighting/plant management and cogeneration business, in which the Hera Group has a significant presence that complements that of AMGA;
- optimizing industrial presence in Bulgaria thanks to the expansion of the industrial platform resulting from the combination of AcegasAps and AMGA activities in that country, creating a significant entity capable of achieving the size necessary to continue supporting the development of its activities with a view to efficiency and financial sustainability;

- pursuing a further degree of efficiency in terms of presence in Friuli Venezia Giulia and Veneto in order to achieve synergies which, when fully implemented, are expected to total approximately million Euros a year before taxes, not including possible optimizations in terms of tax burden and the forms of operational efficiency achievable in Bulgaria.

These strategically relevant elements of the Operation converge with elements that are of significant interest also to the shareholders of Hera, who will benefit from:

- a higher degree of liquidity anticipated for Hera stocks, resulting from the entry of significant third party shareholders into the pool of shareholders;
- a higher level of profitability in terms of earnings per share, calculated on the basis of the latest annual balances;
- maintaining the majority of Hera's share capital in the hands of public shareholders, seeing as the pool of shareholders of AMGA is primarily composed of public capital;
- strengthening the governance and enhancement of the equity investment that Hera already holds in AMGA. In fact, following the recent acquisition of Est Reti Elettriche, the Hera Group holds a share capital in AMGA equal to approximately 6.68%, making it the third largest shareholder.

Moreover, this operation involves strong strategic-industrial elements for AMGA and its shareholders as well:

a) Main industrial prospects for AMGA



- Through AcegasAps, significant growth in terms of scale and geographical diversification in gas distribution, thanks to the strengthening of AMGA and the Hera Group's existing on-site operational structures, with the consequent optimization of operating costs, in compliance with the guidelines established by the Authority for Electricity and Gas;
- opportunities to improve the quality of services both commercially and industrially, sharing technology platforms developed by Hera (e.g. CRM, Work Force Management, remote control, digital platforms and trading and billing infrastructures as well as technical and commercial call centers, etc.);
- reinforcement of the company's strong commercial presence, recently subject to an erosion of the customer base, achieving an appropriate size to effectively compete in the free market for gas and electricity provision;
- consolidation of activities related to the core business, such as public lighting, thanks to integration with of the activities of the Hera Group in Trieste, Gorizia and Padua, in addition to those in the Emilia Romagna area.

b) Main prospects for AMGA shareholders

- A substantial reduction in the risk facing AMGA's asset value through the inclusion of its industrial scope within the broader and more diversified industrial scope of Hera, which in recent years has successfully ensure a trajectory of steady growth and growth "stability" even in the face of the difficult economic situation. This enables a reduction in the degree of financial and industrial risk for AMGA shareholders, with benefits for the stakeholders of the company as well, including for employees and their job stability;
- the maintenance of a "local role" for AMGA, with a guaranteed presence in the current headquarters, prospects for development in relation to its areas of presence and maintenance of its "brand" identity;
- conversion of a currently illiquid equity investment into Hera shares, which are characterized by a higher level of liquidity;
- the opportunity to benefit from Hera's stable and well-established dividend policy, which for AMGA shareholders involves a profile of prospective dividends that is more substantial than that guaranteed up to now and what AMGA might pay out if it were to face the upcoming gas competitive bidding processes and associated large investment plan on a stand-alone basis.

The new entity will enjoy a significant strengthening of its local presence in Veneto and Friuli Venezia Giulia, in part through the creation of an ad-hoc business unit based in Udine that will bring together all the gas distribution activities in the areas of Udine, Trieste, Gorizia and Padova, and in energy and related business activities. This entity represents the co-leader in the Veneto and Friuli Venezia Giulia area in terms of gas distribution with approximately 450,000 delivery points managed and over 300 direct employees.

Analysis of the Company's Main operational data (2012) post-merger

			COMBINED
PdR Gas (K)	1.495,3	153,8	1.649,1
PdR Gas Bulgaria (K)	4,4	7,8	12,2
Cienti Gas (K)	1249	90,2	1.339,2
Volumi gas venduto (mmc)	3696,5	255,9	3.952,4
Cienti EE (#)	688,1	13,7	701,8
Volumi EE venduta (GWh)	10.449,7	1.279,1	11.728,8
Punti luce IP (k)	359	22	381
EBITDA/Dip. (€)	94,5	82,3	94,0

The developmental strategy, in line with the Hera Group's strategic guidelines, will be aimed at:

- geographically consolidating the regulated gas distribution business, both in terms of costs and operational model in order to create the conditions for success in the phase of the upcoming competitive bidding processes for the renewal of contracts in the areas of current significant presence;
- continuing to pursue development the commercial energy sector, enlarging the customer base and opportunities in the currently covered and nearby areas, in the logic of both cross-selling and new penetration with the dual-fuel offering, and strengthening upstream integration within a context in which the scale of "minimal efficiency" is steadily increasing and commercial prospects and upstream are experimenting with new business models related to the centrality of the customer, a partnership networks and advanced management of commodities positions and risk;
- harnessing innovation and efficiency for the evolution of the operational structure and perceived quality by taking advantage of the company's respective best practices regarding both the managed plant structure and customers. In this endeavor, the most important approaches and models will be those that allow (i) integrated resource management, (ii) standard operating procedures for plant construction, (iii) cutting-edge technological solutions. Strengthen the focus on sustainability with initiatives aimed at reducing environmental impact, growing the relationship with stakeholders and promoting a balanced use of local resources;
- strengthening the company's asset and financial balance, creating an effective platform for development.

In terms of operational synergies, there are a number of specific areas aimed at ensuring the increasing convergence of standards and evolution towards an ever more efficient and effective model. Here are some of the areas identified in this preliminary stage of analysis that might ensure what is outlined above:

Gas Distribution Area

- sharing the workforce management platform and the support originating from the remote control system, in terms of both operation and maintenance (through a logic of optimizing costs and the risk/service quality profile);
- introducing new operational modes, including through fluid dynamics approaches, designed to optimize the management of networks and systems;

- sharing and standardizing investment and unscheduled maintenance policies in order to rationalize expenditures, acting on both demand management, and the policies; enhancing the companies' respective engineering internal control processes in order to optimize the insourcing of activities and maintain a more direct supervision of work and unified technological evolution (e.g. in the area of Energy);
- obtaining a tax benefit from the integration of the gas distribution activities into AcegasAps, a company not subject to the payment of the additional IRES corporate tax, called the Robin Hood Tax.

Commercial Area

- Maximizing the benefits originating from full complementarity between the two companies through, on one hand, integrating of AMGA Energia e Servizi into the Hera Group (Trading) risk management model and, on the other hand, expanding the portfolio of activities, seizing opportunities for synergies both in terms of optimizing the directly-managed commodities portfolio (gas and electricity procurement) and assets (Energy Up-stream Asset Management);
- sharing existing information systems in order to obtain an integrated and interoperable billing/CRM system within the new group that is capable of responding to the specificity of their respective territories, but also guiding a prospect of complete convergence of SAP R3-based management systems; in this sphere, the rationalization of the locations and equipment that are part of the hardware infrastructure and support-oriented communication may produce further areas of optimization;
- homogenizing promotional and commercial activities (campaign management) enhancing the customer base and opportunities in the covered and contiguous areas, in a logic of both cross-selling and new penetration with the dual-fuel offering;
- optimizing the cost of AMGA debt by accessing financing costs enjoyed by the Hera Group in the banking and capital markets;
- rationalizing asset allocation, privileging the unified and homogeneous internal control of activities and responsibilities.

4. VALUES ATTRIBUTED TO HERA AND AMGA IN ORDER TO SET THE SHARE EXCHANGE RATIO

To carry out the valuation necessary to set the exchange ratio, the Hera Board of Directors drew on the consultancy and cooperation of the CMC CAPITAL LLP financial advisor (the "financial advisor").

The Hera Board of Directors, taking into account the Quarterly Report of 30 September 2013 of the Merging Company and the Quarterly Report of 30 September 2013 of the Merged Company, adopted by the respective Boards of Directors as the financial statements of reference, after careful analysis of the opinions expressed by the financial advisor and having shared the valuation methods used, which are described in Paragraph 5 of this report, has identified the following value ranges for the shares of the Companies Participating in the Merger in order to set the exchange ratio (derived from the main methodology outlined below):

	Minimum	Maximum
Value per AMGA share (Euros)	919.5 Euros	1,172.5 Euros

	Minimum	Maximum
Value per Hera share (Euros)	1.74 Euros	1.94 Euros

It should be noted that the values in the above tables, as well as all the tables contained in Paragraph 5 of this report, are rounded, although not significantly.

5. THE SHARE EXCHANGE RATIO AND CRITERIA EMPLOYED TO SET IT

5.1 INTRODUCTION

The Hera Board of Directors, with the support of the financial advisor, have selected the valuation criteria found to be most consistent with the purposes of the analysis, that is setting the exchange ratio between AMGA and Hera shares in the framework of the Merger.

In keeping with common professional practice, the valuation methods were selected in an effort to identify significantly comparable values for setting the exchange ratio, in consideration of all the shareholders of the Companies Participating in the Merger.

In order to convey comparable values, to set the exchange ratio valuation methodologies were therefore adopted for the Companies participating in the merger based on uniform criteria.

The evaluative analysis was conducted from the standpoint of the merger, that is, with the goal of determining the contributions made by the Merging Company and Merged Company to the equity value of the post-merger company. In other words, in determining the weight of Hera and AMGA's respective economic capital, the analysis sought to measure the value not in an absolute sense, but rather in a relative sense. Therefore, as the results are not representative of a "absolute" appraisal of Hera and AMGA, they cannot be compared with potential acquisition or divestiture prices. The valuations made in this case may therefore differ from the valuations carried out in different contexts or for different purposes, including in terms of the selection criteria and methodologies employed.

These valuations were performed with an assumption of continuity in the management of the companies in question, and the results obtained cannot be considered representative of an independent valuation of the two Companies Participating in the Merger.

Finally, it is emphasized that the values listed the following paragraphs, determined on the basis of the premises outlined above, do not reflect the value of the synergies generated through the integration of the Companies Participating in the Merger.

5.2 METHODOLOGIES EMPLOYED

Given the purposes of the valuation carried out in the context of a merger, that is to determine the relative values of the participating companies, in choosing the evaluation methods uniform criteria have been adopted in order to identify values that can be correctly compared rather than objectively quantified.

In principle, using uniform criteria does not necessarily involve applying the same valuation methods to all the companies directly or indirectly affected by the merger. In the present case, however, in view of the similarities between Hera and AMGA in terms of elements including but not limited to business models, geographic areas, stage of life of the companies, etc., it was considered appropriate to apply the same valuation methods to both companies. Accordingly, the exchange ratio was determined by applying valuation methodologies that are commonly used, including internationally, for transactions of this nature and companies operating in the sectors in question.

The Hera Board of Directors selected as the main valuation method for both the Companies Participating in the Merger (a) the "Discounted Cash Flow" method - "DCF". As a control methodology the Directors considered: (b) "Sum-of-the-Parts" method or "SOTP". Moreover, (c) the market multiples of comparable companies method was also analyzed, but this method was not selected for determining the value of the Companies Participating in the Merger due to the inherent limitations that invalidate its significance, as discussed in detail below.

(a) *Main method: Discounted Cash Flow*

Based on this methodology, the value of a company's economic capital is the sum of: (i) the net discounted cash flows from operating activities that the company will presumably be able to generate in a specific analytical forecasting period, (ii) estimated net discounted cash flows from operating activities for the period following the specific forecasting period (i.e. a cash flow considered sustainable in perpetuity, which is the Terminal Value), (iii) the presumed value of any surplus assets not included in the discounted cash flows (such as, for example, the long-term financial investments not consolidated in the business plan), less (iv) financial indebtedness and minority interests, as expressed by the following formula:

$$W = \sum_{t=1}^n \frac{FC_t}{(1+WACC)^t} + \frac{VT}{(1+WACC)^n} + SA - IFN_{t0} - M$$

where:

- W = The value of the company's economic capital
- FCt = Annual cash flow expected for the period t
- VT = Terminal Value
- SA = Surplus Assets and long-term non-Consolidated investments
- IFN = Net financial indebtedness at moment t=0
- M = Minority interests
- n = Number of periods forecasted
- WACC = Weighted Average Cost of Capital

The net discounted cash flows from operating activities are relative to the characteristic activities of the company being evaluated. These flows can be estimated as follows:

- + EBIT
- Figurative fiscal effect of the EBIT
- = NOPAT
- + Amortization
- + Non-monetary provisions
- ± Δ Net working capital
- ± Δ Other liabilities/assets
- Net investments
- = Net discounted cash flow from operating activities

The terminal value can be determined as: (i) the value of the company at the end of the reference period (calculated using the methodology of market multiples, applying a multiple considered consistent with the profiles of the companies to be merged to the EBITDA of the final year in the projection period), or (ii) the present value of expected net cash flows from operations for the period subsequent to the reference period, in which case it is estimated as follows:

$$VT = FCF \times (1+g) / (WACC -g)$$

where:

- g = nominal growth rate in perpetuity for the normalized net operating cash flow;
- FCF = Normalized operating cash flow (i.e. sustainable)
- WACC = Weighted Average Cost of Capital

The rate used to discount the net cash flows from operations and the terminal value is calculated as the weighted average cost of equity and debt, using the following formula:

$$WACC = [D / (D + E)] \times K_d \times (1 - t) + [E / (E + D)] \times K_e$$

where:

- D = Net financial debt
- E = The current value of net assets
- K_d = Cost of indebtedness
- K_e = Cost of equity
- t = Tax rate

In particular, the cost of debt capital represents the rate of long-term financing applicable to companies or economic operations with similar risk profiles adjusted according to the tax component. The cost of equity

reflects the return expected by the investor and, in common practice, is estimated based on the Capital Asset Pricing Model (CAPM), which is defined by the following formula:

$$K_e = r_f + \beta \times (r_m - r_f)$$

where:

r_f = risk-free rate of return

β = correlation factor between the actual return on a share and overall return in the reference market

r_m = overall return in the reference market

$(r_m - r_f)$ = premium on the return expected by the reference investors as compared to risk-free investments (Equity Risk Premium)

(b) Sum-of-the-Parts method

The Sum-of-the-Parts method ("SOTP") values a company by summing the assessed value of each of its individual business segments.

This method is commonly used in international practice and is well suited to the evaluation of complex groups operating in different business segments. Given that the two companies have comparable asset portfolios, Sum-of-the-Parts is considered to be a suitable method for evaluating the results obtained with the DCF methodology.

The evaluation is carried out by applying the valuation method deemed appropriate under the circumstances to each previously identified business segment, seeking to the greatest possible extent to apply the same general method of valuation to all business segments. In this case, as explained below, it is considered appropriate to assess the business segments by applying comparable transaction multiples; the market multiples method is not applicable given the lack of significant samples of comparable listed companies in the various business segments.

(c) Market Multiples Method

The market multiples method consists in determining a company's value by observing how financial markets value businesses with similar characteristics.

This method involves, first, calculating the multiples of comparable companies. In practice and theory, for the purposes of choosing the reference multiples to be used, there are two approaches: the "asset side" and "equity side".

In the "asset side" approach: 1) the numerator expresses the gross value of the investment, generally resulting from the sum of market capitalization, net financial debt and minority interests, less non-consolidated equity investments, and 2) the denominator should consequently include the operating results without deducting interest due ("unlevered").

In the "equity side" approach, however, 1) the numerator is the market capitalization of the shares, while 2) the denominator is the net result, less interest due ("levered").

To select comparable companies, the Board took into account a number of considerations, including: belonging to the same sector, size, financial structure, having the same economic-financial indicators used as references to calculate the multiples, governance, transparency, stage of the corporate life cycle, business models, etc. The data expressed by the multiples and of corporate performance are adjusted, if necessary, to eliminate any extraordinary elements, and more generally, to correct different accounting policies.

After calculating the multiples of the comparable companies, the representative multiples of the reference sample are identified, generally determined as average or mean values.

Finally, these multiples are applied to the economic-financial indicators of the company being valued in order to determine the value of its economic capital.

5.3 INFORMATION USED

The following information were taken into account to conduct the evaluation outlined in this report:

- financial and consolidated financial statement for the fiscal years ending 31 December 2010, 2011, 2012 and quarterly financial report as of 30 September 2013 for Hera and AMGA;
- public information concerning the companies and their subsidiaries;
- consolidated financial forecasts for the companies for the years 2013 - 2017 based on the latest available business plans approved on 25 September 2013 for Hera and 23 January, 2014 for AMGA; in particular, given how important the gas distribution and energy sales businesses are in the industrial scope of AMGA and, in part, Hera, it was decided to conduct an ex-ante alignment of the main industrial prospects for these industrial activities in order to identify values for them that are significantly comparable;
- accounting, non-accounting and management information considered useful for the preparation of this report;
- public information relating to comparable companies and comparable transactions.

5.4 APPLICATION OF THE VALUATION CRITERIA

5.4.1 APPLICATION OF THE DISCOUNTED CASH FLOW (DCF) METHOD

This paragraph describes the premises underlying the business plans of Hera and AMGA, used to calculate their value using the DCF method.

The determination of fundamental value for the financial investor through the Discounted Cash Flow method reflects the following premises:

- reference was made to the consolidated cash flows resulting from the stand-alone economic-financial plans for the period 1/10/2013-2017 prepared by the management of the two Companies Participating in the Merger;
- growth rates used to generate the financial forecasts beyond the horizon of the business plan and to calculate the terminal value reflect the growth prospects consistent with the relevant market benchmarks;
- the weighted average cost of capital (WACC) was calculated on the basis of a homogenous aimed-for financial structure for the two companies, considering their respective development plans;
- flows throughout the projection period were discounted as of 30 September 2013 (the date of reference of the last quarterly report available for Hera and AMGA);
- in calculating the terminal value, the estimate of long-term normalized cash flow is based on cautious economic and operational hypotheses, on a normalized level of using the bad debt provision and, as per common practice, on the equivalence between the level of investment and the value of amortization (i.e. steady state).

In determining the equity value beginning from the company values derived from discounting the cash flows, the following items were taken into account (so-called bridge-to-equity):

- Net financial indebtedness as of 30 September 2013, appropriately adjusted where necessary;
- minority interests, valued where possible by discounting the cash flows associated with these minorities, or otherwise at their book value;
- long-term investments in non-consolidated companies valued on the basis of the book value reported in their financial statements;
- book value of the severance package and other funds (e.g. landfill post-closure and restoration of third

party assets) as of 30 September 2013.

In particular, in the case of Hera, net financial indebtedness was adjusted in order to include the financial effects associated with the recent capital increase as well as the financial effects associated with extraordinary operations laid out in the industrial plan.

In the case of AMGA, an adjustment of net financial indebtedness was considered, in order to include the financial effects associated with the transfer of the business segment concerning the management of integrated water services, which was carried out in the last quarter of 2013. For both the Companies Participating in the Merger, net financial indebtedness was adjusted to account for the distribution of ordinary dividends that may occur by the effective date of the merger, scheduled for 1 July 2014, with the result that the per share values listed later in this report are to be considered already net of the dividend distribution for the year 2013 (ex-dividend).

In addition, for both Hera and/or AMGA, the number of shares treasury shares held was excluded from the outstanding shares; in the specific case of AMGA, the number of treasury shares that the company has come to hold following the implementation of the operation transferring the business segment concerning the management of integrated water services mentioned above was excluded, while in the case of Hera a further adjustment was made to include the number of new shares that the company may issue in connection with the acquisition of further shares in AIMAG.

The table below shows the key financial data relating to the economic-financial plan that the company provided for the preparation of the valuation using the DCF method and the details of the weighted average cost of capital calculation used to discount cash flows.

(a) The Hera Group

The financial forecasts were made based on the results of the 2013 revised budget, and forecasts regarding the last approved plan for the five-year period from 2013 to 2017, which are summarized below.

The strategic objectives set out in the business plan aim to:

- continue extracting value from equity assets under management, focusing on the efficiency of operations, cross-selling opportunities leading to an increase in services provided to the client, and the continuous improvement of service levels;
- consolidate its portfolio of services, with the aim of maintaining a mix of services that will guarantee growth and profitability;
- develop an even more consumer-targeted approach, with the goal of increasing the number of multi-business customers and, in relation to the gas and electricity sales market, accelerating the process of switching from protected market offerings to free market offerings;
- reconsider the mix of waste disposal plants, with a trajectory of gradually increasing the proportion of plants dedicated to the recovery and recycling of materials;
 - enhance (organic and through extraordinary transactions) growth options by maximizing the value extracted from already-made and future integrations.
 - focus on integration synergies with the AcegasAps Group, planned for and fully operational in 2017.

The business plan prepared by Hera management and approved by the Company's Board of Directors adopts a timeframe ending with the year 2017, in line with the plan prepared by AMGA.

The EBITDA forecasted in Hera's strategic plan was developed including the expected consolidation of the subsidiary AIMAG. Hera's EBITDA is forecast to grow to 951 million Euros in 2017. For valuation purposes, this planned EBITDA has been adjusted to take account of: (i) the timing of the EBITDA margin associated with incentives for producing electricity from renewable sources, which have been evaluated separately so that they are not considered in the Terminal Value also in perpetuity, (ii) a more conservative timetable for the consolidation of AIMAG and (iii) the exclusion of an additional consolidation operation planned for 2017 in that it is identified with the operation addressed in this report and (iv) the inclusion of additional EBITDA for the 2014-2016 period associated with the recent awarding of the "safeguard" contract.

The cumulative investments planned for the 2013-2017 period amounted to approximately 1,974 billion Euros, constant throughout the duration of the plan, over 70% of which will concern regulated activities (water services, network management and urban sanitation).

(b) The AMGA Group

The economic-financial forecasts were made based on the results of the 2013 budget with a five-year timeframe (2013-2017) reflecting the company's strategic, managerial and financial objectives as expressed by AMGA management.

In particular, the financial projections include the effects of the divestiture of the business segment concerning the management of integrated water services, as well as the effects of participation in the upcoming competitive bidding processes for the renewal of contracts to distribute gas in the ATEM of Udine 1, Udine 2 and Udine 3, in keeping with the guidelines defined by AMGA's Board of Directors in the meeting held in September 2013. The strategic plan shows EBITDA growth at an average annual rate of 10.4% over the 2013 to 2017 timeframe, which reflects the negative effect of the EBITDA deconsolidation associated with the management of integrated water services and benefits from the investments and growth that the company will enjoy in the scenario representing a successful outcome in the upcoming competitive bidding processes for the renewal of contracts to distribute gas in the three ATEMs in the province of Udine.

In terms of investment, the plan sets a cumulative value of approximately 119.7 million Euros for the 1/10/2013-2017 period, primarily associated with the financial outlays required to participate in the upcoming competitive bidding processes for awarding gas distribution contracts within AMGA's geographical areas of operation.

(Million Euros)	2013	2014	2013-2017 CAGR
EBITDA	27.7 Euros	24.7 Euros	10.4%
Earnings from Operations	17.8 Euros	17.3 Euros	11.4%
Investments	10.1 Euros	5.8 Euros	119.7 Euros

(c) Weighted Average Cost of Capital used

In order to comply with the conditions of homogeneity, the same hypotheses have been used in calculating the WACC of Hera and AMGA.

The main hypothesis (outlined in the previous methodology section) used to estimate the Weighted Average Cost of Capital can be summarized as follows:

- Rate of return on risk-free activities: as per common practice, the rate of return a long-term risk-free investment (represented by Italian government bonds with a maturity of 10 years) was used; in order to take into account the volatility recently observed in the yield of these bonds, it was considered appropriate to adopt the average yield of 2013, estimated at approximately 4.30%;
- Beta (index of correlation between the yield of a share and that of the relevant stock market): to estimate Beta for Hera and AMGA, reference was made to the average beta of Italian companies in the sector of the formerly municipally owned companies listed in the Stock Exchange, as inferred from an identification of historical averages, adjusted taking into account the capital structure of the companies included in the sample. Therefore, an "unlevered Beta" of approximately 0.449 was estimated Hera and AMGA;
- Equity Risk Premium: a value of 6.0% was used, essentially in line with the consensus of estimates made by financial analysts;
- Ratio of debt to total capitalization (gearing): in defining the structure of the cost of debt capital for Hera and AMGA, as outlined in their respective business plans, it was hypothesized that future growth would be financed partly through self-financing and partly through the use of long-term external funding. The level of target gearing for Hera was calculated on the basis of the observable debt forecasted in the business plan for 2017, which is the final year of the explicit forecasting period, while for AMGA the long-term post-2017 indebtedness level has been estimated in view of the very large investment plan scheduled for the 2015-2016 period. These gearing levels hypothesized are 45% for Hera and 35% for AMGA.

On the basis of these hypotheses, the Weighted Average Cost of Capital for Hera and AMGA has been estimated in a range of values between 6.0% - 6.5%.

(d) Terminal Value

The Terminal Value was calculated:

- in perpetuity, on the basis of the 2017 normalized flow, assuming a growth rate of 1.50%;
- on exit multiple of EBITDA, assumed to equal 6.75x.

(e) Values estimated with the DCF method

On the basis of the hypotheses described above, applying the DCF method to the two companies allows us to estimate the "stand alone" price per share in the intervals outlined below:

	Minimum	Maximum
Value per AMGA share (Euros)	919.5 Euros	1,172.5 Euros

	Minimum	Maximum
Value per Hera share (Euros)	1.74	1.94

5.4.2 APPLYING THE SUM-OF-THE-PARTS METHOD

For the purpose of determining the economic value of the Companies Participating in the Merger using the Sum of the Parts method, the business areas outlined in the following table were taken into account.

As evidenced by the table below, the two companies have comparable portfolios of assets, thanks to which the Sum of the Parts method was considered appropriate for determining the value of the Companies Participating in the Merger.

<i>Business areas</i>	<i>HERA</i>	<i>Activity areas</i>	<i>AMGA</i>
Gas	Gas Distribution (Italy) (1) Gas sales District Heating		Gas Distribution Gas sales (in both Italy and Bulgaria)
Electricity	Electricity generation Electricity distribution Electricity sales		Electricity sales
Water	Integrated water cycle		Sold off and thus not taken into account
Environment	Collection and Sweeping Disposal and Recovery		Not applicable
Other Services	Plant Management and Cogeneration Cogeneration. Public Lighting Telecommunications		Plant Management and Cogeneration Cogeneration. Public Lighting

- (1) On the basis of Hera's "stand alone" industrial plan, it was assumed that gas distribution in Bulgaria would be deconsolidated, which therefore was included among unconsolidated investments for valuation

The valuation method used to determine each of the business areas was comparable transaction multiples, in light of the following considerations:

- this is an objective methodology based on measurements (EBITDA, RAB, number of customers, etc.) that are historical and therefore not subject to the ambiguity and uncertainty associated with forecasting dimensions such as the financial projections used in applying the DCF method;
- it makes it possible to uniformly apply the same measurements to Hera and AMGA in areas where both are present, referring to the same drivers (eg. EBITDA, RAB, number of customers, etc.).

On the other hand, it must be remembered that the multiple expressed in each of the comparable transactions used in the reference sample may reflect components that are specific to that transaction, such as elements of negotiation between the parties the effects of which are mitigated when the selected sample is composed of a significant number of transactions.

The following table shows the multiples used for each of the business sub-areas. In addition, the enterprise value of the two companies that was obtained by adding the values of their individual business areas was subsequently adjusted for the same elements of the "bridge-to-equity" used in applying the DCF method, in order to determine the value of the equity of the two companies, with the sole exception of the minority interests in Herambiente SpA and FEA, which were also valued at the same multiple applied to the environment segment.

Business areas	Sub-sector		Measurement used	Range (min - max)
	HERA	AMGA		
Gas	Gas Distribution - owned network		EV/RAB	1.05x - 1.10x
	<i>Upside VIR-RAB alignment with weighting factor</i>		Delta VIR-RAB with weighting factor at 50%	<i>n.s.</i>
	Not considered, as the Business Plan does not call for consolidating it	Bulgaria	EV/CIN	1.05x - 1.10x
	Gas sales		EV/customer(€)	€250 - €350
	District Heating	-	EV/RAB	1.05x - 1.10x
Electricity	Electricity generation	-	<i>Book value¹</i>	<i>n.s.</i>
	Electricity distribution	-	EV/RAB	1.05x - 1.10x
	Electricity sales - regulated market	-	EV/customer(€)	€100 - €200
	Electricity sales - free market		EV/customer(€)	€150- €200
Water	Integrated water cycle	-	EV/EBITDA	7.5x - 8.5x
Environment	Collection and Sweeping	-	EV/EBITDA	4.0x - 5.0x
	Disposal and Recovery	-	EV/EBITDA	7.0x - 8.0x
Other	Plant Management	Gestione impianti /	EV/EBITDA	6.5x - 7.5x

Services	Cogenerazione			
	Cogeneration.	-	Book value ¹	n.s.
	Public Lighting		EV/EBITDA	6.5x – 7.5x
	Telecommunications	-	EV/EBITDA	6.0x – 7.0x

(1) For Hera's electricity generation assets (mainly cogeneration plants) and cogeneration, as there is no available sample of comparable transactions with evidence of underlying measurements, reference was made to the net book value and value of the invested capital, respectively, as of 30 September 2013

Regarding the DCF method, the adjustments relating to the following were included in the SOTP: (i) for Hera, the number of treasury shares held, while AIMAG was valued as a non-consolidated equity investment as it was not included in the measurements used in the valuation, and (ii) for, AMGA the number of treasury shares held following the divestiture of the business segment concerning the management of integrated water services.

On the basis of the hypotheses described above, applying the SOTP method to the two companies allows us to estimate the "stand alone" price per share in the intervals outlined below:

	Minimum	Maximum
Value per AMGA share (Euros)	997.3 Euros	1,127.9 Euros

	Minimum	Maximum
Value per Hera share (Euros)	Euro 1.61	Euro 2.10

5.4.3 APPLYING THE MARKET MULTIPLES METHOD

Using the Market Multiples Method, the value of the company is estimated based on market multiples for companies with similar characteristics, as identified at a date close to that on which the estimate is made.

The sample of comparable companies used as a reference includes Italian companies operating in the field of local utilities.

Multiples were used on EBITDA, as such measurement represents the economic-financial size generally used in common market practice for companies in the utilities sector, given that it summarizes the generation of operating cash flows and is an appropriate measure for defining the value of the company. The years selected for reference are 2014 and 2015, that is, the first two years forecasted. Other forecasted years further ahead in time were not considered to be significant, as there was less information available on the EBITDA of the companies in the sample, and more uncertainty associated with the medium/long term results in today's highly uncertain macro-economic context.

In contrast with the DCF and Sum of the Parts methods, the Board of Directors did not choose to apply the market multiples method to determine the fairness of the exchange ratio, due to a number of factors:

- the sample of companies that are effectively comparable to Hera and AMGA is very small;
- the short-term results are conditioned by the current macro-economic crisis, and therefore do not wholly reflect all the prospects for profitability in the medium term enjoyed by Hera, AMGA and comparable companies;
- the current stock market performance of comparable companies is characterized by high volatility;
- the short/medium term forecasted results for Hera and AMGA, as well as those of comparable companies on which the application of this method is based, are influenced by the macroeconomic slowdown, and therefore may not adequately reflect long-term prospects for profitability. <

In order to reduce uncertainty linked to the instability of the market environment in applying this valuation method, both the exact prices as of 22 January 2014 and the weighted average prices for the volumes in the timeframe relative to the six months preceding that date were used.

To determine the value of the equity of the Companies participating in the merger from the enterprise value obtained through the market multiples method, the same elements of the "bridge-to-equity" used in applying the DCF method were taken into account, with the sole exception of the minority interests in Herambiente SpA and FEA, which were also valued at market multiples.

The following tables show the market multiples of the comparable Italian companies at the exact prices as of 22 January 2014 and the weighted average prices for the volumes in the time period of six months preceding that date.⁷

It should be noted that the forecasted EBITDA data for the comparable companies are based on the average of the financial projections made by the research analysts who keep abreast of the performance of the stocks in the Italian stock exchange, called Broker Consensus (source: Reuters).

Exact prices	EV/EBITDA 2013	EV/EBITDA 2014	EV/EBITDA 2015
A2A	7.2x	7.4x	7.3x
Acea	6.6x	6.4x	6.4x
Ascopiave	5.7x	6.1x	6.9x
Iren	7.3x	7.2x	7.0x
Average	6.7x	6.8x	6.9x
Mean	6.9x	6.8x	7.0x

Weighted average prices	EV/EBITDA 2013	EV/EBITDA 2014	EV/EBITDA 2015
A2A	7.1x	7.3x	7.2x
Acea	6.3x	6.2x	6.1x
Ascopiave	5.1x	5.4x	6.2x
Iren	7.1x	7.1x	6.9x
Average	6.4x	6.5x	6.6x
Mean	6.7x	6.6x	6.5x

Since the application of the market multiples method involves applying the same EV/EBITDA multiple to both Hera and AMGA, this method does not necessarily reflect the different growth trajectories of the Companies Participating in the Merger.

Therefore, a regression analysis was carried out on the EV/EBITDA multiple and EBITDA growth rate in the 2014-2015 period for the sample of comparable companies, based on broker consensus data, in order to determine the theoretical multiples to apply to the Companies Participating in the Merger after taking into account their actual growth rate.

Since it is expected that AMGA will make a significant investment associated with the competitive bidding process for awarding the gas distribution contract in the Udine 1 ATEM, steps were taken to adjust the 2015 EBITDA to take into account a probable successful bid.

The following table shows the implicit market multiples for Hera and AMGA derived from regression analysis.⁸

Exact prices	EV/EBITDA 2014	EV/EBITDA 2015
--------------	----------------	----------------

⁷ The sample does not include Acsm-Agam because research analysts' forecasts are not available.

⁸ The multiples were calculated as the sum of i) the intercept resulting from the regression ii) the product of the beta coefficient of the regression and the annual growth rate forecasted for the period 2014-2015.

HERA	7.49x	7.30x
AMGA	8.76x	8.41x

Weighted average prices	EV/EBITDA 2014	EV/EBITDA 2015
HERA	7.39x	7.20x
AMGA	8.80x	8.45x

However, it should be emphasized that the statistical analysis reported here has limitations, given that it is based on a very small sample of comparable companies, which may invalidate its significance. For this reason, the analysis is provided here but not taken into account in setting the exchange ratio.

For purely illustrative purposes, here below are outlined the results of applying the market multiples method, which was not taken into consideration in setting the exchange ratio for the companies involved in the merger:

Value per Hera share (Euros)	Minimum	Maximum
Average of the multiple	1.50	1.80
Regression analysis	2.02	2.24

Value per AMGA share (Euros)	Minimum	Maximum
Average of the multiple	786.5	883.1
Regression analysis	1,225.4	1,242.9

5.5 REPORTS OF ANY DIFFICULTIES IN VALUATION, PURSUANT TO ARTICLE 2501-QUINQUIES, PARAGRAPH II OF THE CIVIL CODE

In carrying out the valuations, the following problematic elements were encountered in using the DCF method to set the exchange ratio:

- The valuations were carried out using forecasted economic-financial data. These issues are inherent in the DCF financial methodology, which is based on estimates of future cash flow generation, themselves in turn based on the companies' business plans and forecasts of market trends and thus, by their nature, characterized by uncertainty, specifically the current overall economic environment and the Italian context in particular, which in recent years has displayed a marked reduction of the markets in which Hera and AMGA operate, thus increasing the degree of uncertainty associated with economic-financial forecasts;
- the Public Utilities sector is subject to a continuous process of legislative evolution, with effects that are not easily predicted;
- the current high volatility of the capital markets, both equity and debt, negatively impacts on the significance of the analysis used in calculating the WACC.

5.6 CONCLUSIONS

Based on the analysis conducted and in accordance with the valuations carried out with the assistance of the financial advisor, who shares the company's logical procedures and economic hypotheses, the Hera Board of Directors identified the following range of values for the Hera shares, the AMGA share and the corresponding exchange ratio range, depending on the methods employed.

Methodologies	Value Hera share	Value AMGA share	Exchange (HERA SHARE FOR 1 AMGA SHARE)

Main method: DCF Method	Euro 1.74-Euro 1.94	Euro 919.5-Euro 1,172.5	528.2-604.8
Control Methodology SOTP Method	Euro 1.61-Euro 2.10	Euro 997.3-Euro 1,127.9	537.2-618.5

These findings were compared with those generated in its turn by the AMGA Board of Directors, with the assistance of their financial advisor, Ernst & Young SpA. Following the comparison, the exchange ratio was set as follows:

- **572 Hera ordinary shares with a nominal value of Euro 1.00 per each AMGA share with a nominal value of Euro 500.00**

6. METHOD FOR ALLOTING THE MERGING COMPANY'S SHARES AND DATE FOR RIGHTS TO DIVIDENDS

The merger will take place as follows:

- Cancellation of all AMGA shares;
- Cancellation without share swap of all the AMGA shares held by AMGA itself;
- Cancellation without share swap of all the AMGA shares held, also indirectly, by the merging company, pursuant to Article 2504-ter of the Civil Code; and
- allocation, in service to the share swap, of all the shares of the merging company derived from the increase in share capital.

In this regard, it should be noted that, as of the date of this report, AMGA holds 3,462 treasury shares, representing approximately 2.63% of the share capital of AMGA, which will consequently be canceled without share swap.

Consequently, and assuming that no AMGA shareholders exercises their right to withdrawal, following the Merger, the Hera share capital will consist of 1,489,538,745 ordinary shares with a nominal value of Euro 1.00 each.

Exchange transactions will be carried out without additional expenses, stamp duties or commission, and through authorized intermediaries.

The newly-issued Hera ordinary shares destined for the exchange - which will be listed on an equal footing with Hera ordinary shares currently in circulation - will be issued in a dematerialized form and allotted to AMGA shareholders, through intermediaries who use the Monte Titoli SpA centralized management system, on the Effective Date of the Merger, if the stock exchange is open, or the first trading day thereafter, and in any case will be made available to these shareholders within the period of up to ten trading days from that date. This date will be announced in compliance with the law. At the same time, and in the same manner, additional information regarding allocation modalities will also be provided.

Ordinary shares issued by the Merging Company to be issued in exchange for shares of the Merged Company will provide regular dividends and, therefore, in accordance with law and/or by-laws, grant their holders the same rights as those granted to the holders of shares in circulation at the time of their issue and, therefore, on the Effective Date of the Merger.

7. EFFECTIVE DATE OF THE MERGER

The Effective Date of the Merger, pursuant to article 2504-bis, paragraph 2, of the Italian Civil Code, may also fall after the date of the last act of registration in the Register of Companies, pursuant to article 2504, paragraph 2, of the Italian Code civil and will be determined in the Merger documentation.

As of the Effective Date of the Merger, the Merging Company will take on the Merged Company's assets and liabilities, including litigation, in all legal relations, assuming all the rights and obligations thereof.

The Framework Agreement calls for this date to fall on 1 July 2014.

With reference to the provisions of Article 2501-ter, paragraph 1 number 6 of the Italian Civil Code, the operations carried out by the Merged Company will be listed in the balance sheet of the Merging Company from 1 January 2014 and the tax effects of the merger will be effective from 1 January 2014.

The accounting and tax effects of the effective date will be addressed in the Merger documentation.

8. TAX CONSEQUENCES OF THE OPERATION FOR HERA AND AMGA

Pursuant to Article 172, paragraph 1, of Presidential Decree number 917 of 22 December 1986, the Merger is tax neutral and does not involve generating or distributing gains or losses on the assets of the Companies Participating in the Merger, including those related to inventories or goodwill.

Any differences in the Merger that may arise as a result of the Merger will not contribute to generating taxable income for the Merging Company since the Merger is not relevant for income tax purposes.

Any possible higher values listed in the financial statement, with respect to the assets of the Merged Company, as a result of the ascription of the deficit are not taxable in relation to the Merging Company.

Any tax-suspended reserves recorded in the last balance sheet of the Merged Company and still existing as of the effective date of the Merger will be treated in accordance with the provisions of Article 172, paragraph 5 of Presidential Decree no. 917 of 22 December 1986 and, if necessary, steps will be taken to restore them. Pursuant to Article 172, paragraph 6, of Presidential Decree no. 917 of 22 December 1986, the increase in net equity of the acquiring company remaining after the restoration of the tax-suspended reserves, as referred to in Article 172, paragraph 5 of Presidential Decree no 917 of 22 December 1986, will be subjected to the tax regime of the Merged Company's reserves; this increase in net equity will be proportionately restored.

For shareholders, the exchange of the shares held in the Merged Company generally does not constitute, for the purposes of the income tax, a conversion deed of the shares. In accordance with Article 172, paragraph 3, of Presidential Decree no. 917 of 22 December 1986, the exchange of the shares of the Merged Company with those of the Merging Company does not imply any generating or distributing gains or losses, nor the earning of revenue, in that the operation is merely a substitution of the shares of the Merged Company with those of the Merging Company.

The merger does not constitute an operation with relevance for VAT purposes, in accordance with Article 2, paragraph 3, letter f) of Presidential Decree no. 633 of 26 October 1972. Indeed, according to this regulation transfers of assets associated with mergers between companies are not considered relevant for VAT purposes.

The act of the Merger is subject to a fixed registry tax pursuant to Article 4, letter b) of Part I of the Tariff attached to Presidential Decree no. 131 of 26 April 1986.

9. FORECASTS REGARDING THE COMPOSITION OF HERA RELEVANT SHAREHOLDERS FOLLOWING THE OPERATION

As of 22 January 2014, the Hera shareholders who hold over 2% of shares in the share capital of the Merging Company, on the basis of the official communications and information available, are listed in the table here below, which contains comparative figures of the holdings of major shareholders following the Merger.

Declarant or major shareholder	Direct shareholder/Ownership title	Number of shares	Number of shares post-merger
Municipality of Bologna	Municipality of Bologna	152,445,222	152,445,222
Municipality of Modena <i>through</i>	Holding Strategie e Sviluppo dei Territori Modenesi S.p.A.	139,605,276	139,605,276
Municipality of Imola <i>of which are held directly</i>		105,207,950 71,480	105,207,950 71,480
<i>through</i>	CON.A.M.I. Azienda Multiservizi Intercomunale	105,136,470	105,136,470
Municipality of Ravenna <i>of which are held directly</i>		86,874,337 1,000	86,874,337 1,000

<i>through</i>	Ravenna Holding S.p.A.	86,873,337	86,873,337
Municipality of Trieste	Municipality of Trieste	71,833,706	71,833,706
Municipality of Padua	Municipality of Padua	71,546,945	71,546,945
Municipality of Udine	-	-	44,134,948
Lazard Asset Management LLC	Lazard Asset Management LLC as discretionary asset manager	28,568,987 ⁹	28,568,987 ¹⁰
Carimonte Holding S.p.A.	Carimonte Holding S.p.A.	28,500,000	28,500,000

Following the merger, no person shall exercise control over Hera in accordance with Article 93 of the TUF.

10. EFFECTS OF THE OPERATION ON PARASOCIAL AGREEMENTS WITH RELEVANCE IN RELATION TO ARTICLE 122 OF THE TUF

Except as stated below, the Merger will not affect existing parasocial agreements with relevance in relation to Article 122 of the TUF.

As outlined in paragraph 1.1., letter (b), as a condition to its execution, the Framework Agreement requires that both Hera and the Municipality of Udine sign the Acegas and Lock-up Parasocial Agreement. The agreement mandates that, upon renewal of the Hera Agreement scheduled for 1 January 2015, the Municipality of Udine sign the agreement, assuming the rights and obligations held by each of the other Parties to the Hera Agreement, with the right to appoint 1 member to the Board of Statutory Auditors with voting rights, with the consequent increase in the total number of members sitting on that Board from the current 11 members to 12 members. Lastly, the renewed Hera Agreement will mandate that, following the Merger, the equity investment the Municipality of Udine will hold in Hera's share capital, 37,343,661 ordinary Hera shares, be subjected to the blocking syndicate.

11. CONSIDERATIONS MADE BY THE BOARD OF DIRECTORS REGARDING THE RECURRANCE OF THE RIGHT TO WITHDRAWAL

As a result of the Merger, Hera shareholders who do not concur with the resolution to approve the Merger will not have the right to withdrawal.

As a result of the merger, AMGA shareholders who do not concur with the resolution to approve the Merger will have the right to withdrawal. In particular, the AMGA shareholders who do not concur with the resolution to approve the Merger will have the right to withdrawal pursuant to Article 2437, paragraph 1, letter a) of the Italian Civil Code, in that, for them, adopting the Hera Articles of Association will involve a significant change in the activity of the company in which they will hold shares following the Merger.

PURSUANT TO ARTICLE 2437-TER, SECOND PARAGRAPH OF THE ITALIAN CIVIL CODE, FOR THE PURPOSES OF WITHDRAWAL, THE LIQUIDATION VALUE OF AMGA SHARES WILL BE SET BY THE AMGA BOARD OF DIRECTORS, AFTER CONSULTING WITH THE BOARD OF STATUTORY AUDITORS AND THE INDEPENDENT AUDITORS TASKED WITH CONDUCTING LEGAL AUDITS OF AMGA'S ACCOUNTS.

The AMGA shareholders are entitled to be informed about the set liquidation value of AMGA shares in the 15 days prior to the date established for the meeting to approve the Merger Plan; they are likewise entitled to inspect the documentation associated with setting the value and to obtain copies at their own expense.

The AMGA shareholders entitled to exercise the right to withdrawal will be able to exercise their right, for all or part of the shares held, pursuant to the provisions of Article 2437-bis of the Italian Civil Code, via registered letter, which must be sent within 15 days of the date that the AMGA shareholders' resolution approving the Merger Plan is deposited with the Register of Companies.

AMGA shares for which the right to withdrawal is exercised will be inalienable.

^{9/10} Source: Thomson Reuters, updated 12 December 2013. Hera does not have any official, updated information regarding the number of shares held by Lazard Asset Management LLC. Based on information sent to Consob, the shareholder holds more than 2%.

The effectiveness of the right to withdrawal is conditional on the completion of the Merger. The liquidation of the AMGA shares for which the right of withdrawal has been exercised, like the right of withdrawal in general, will be conditional on the Merger taking place and, therefore, the liquidation value will be paid to the entitled persons subsequent to the Effective Date of the Merger.

Attachments to this report:

- Attachment 1.: ;erger Plan
- Attachment 2: Hera's Articles of Association, post-merger.

* * *

In view of what is stated above, the Board of Directors invites You to adopt the following resolution:

Proposed Resolution

“The extraordinary shareholders' meeting of Hera S.p.A.:

- *Having examined and approved the Board of Director's Explanatory Report drafted pursuant to Article 2501-quinquies of the Italian Civil Code and Article 125-ter of Legislative Decree 58/1998 and Article 70 of Consob Regulation no. 11971/1999 and subsequent modifications and relevant attachments)*
- *having examined and discussed the Merger Plan;*
- *having taken note that the Merger Plan was approved by the Board of Directors in their meeting of [•] 2014;*
- *having taken note of the execution, on [•] 2014, of the formal procedures for depositing the Merger Plan with the Bologna Register of Companies on [•] 2014 and thereby the registration of it on [•] 2014 and, of the analogous registration that took place at the relevant Register of Companies on [•] 2014 for AMGA - AZIENDA MULTISERVIZI S.p.A.;*
- *having examined the financial situation and economic data of the merging company Hera S.p.A. and the merged company AMGA - AZIENDA MULTISERVIZI S.p.A., all as of 30 September 2013;*
- *having read the report regarding the congruity of the exchange ratio drafted by [•], on [•] as a common expert designated pursuant to Article 2501-sexies of the civil code of the Court of Bologna;*
- *having taken note that the deeds addressed by Article 2501-septies of the civil code were deposited at the legal headquarters of Hera S.p.A. and AMGA - AZIENDA MULTISERVIZI S.p.A., as well as being published on the websites of the companies participating in the merger*

resolves

- (i) *to approve the merger-by-incorporation plan of AMGA - AZIENDA MULTISERVIZI S.p.A. into Hera S.p.A., as registered with the relevant offices of the Bologna Register of Companies, according to the conditions and modes outlined in the merger plan, including:*
 - *with cancellation of all the shares representing the entire share capital of AMGA - COMPANY MULTISERVIZI SpA and assignment to the respective holders of Hera SpA shares according to the exchange ratio established in the Merger Plan;*
 - *cancellation without share swap of [•] AMGA shares held by AMGA itself;*
 - *with cancellation without share swap of [•] AMGA shares held, also indirectly, by Hera, pursuant to Article 2504-ter of the Civil Code; and*
 - *with the resultant increase of the share capital of Hera SpA, in tranches, from the current amount of 1,421,342,617 Euros to a maximum nominal amount of 1,489,538,745 Euros by issuing a maximum of 68,196,128 ordinary shares with a nominal value of 1.00 Euro each, to be exclusively reserved to the service*

of the exchange associated with the Merger, with the exclusion of the subscription rights of the Hera SpA shareholders;

- with adoption, as of the effective date of the Merger, of the amendments outlined in paragraph 5.1 of the Articles of Association in the text that is shown with a comparative highlighting of the changes:

ART. 5 SHARE CAPITAL	ART. 5 SHARE CAPITAL
<p>5.1 The share capital is 1,421,342,617 (one billion four hundred twenty-one million three hundred forty-two thousand six hundred seventeen) Euros represented by 1,421,342,617 (one billion four hundred twenty-one million three hundred forty-two thousand six hundred seventeen) shares with a nominal value of 1 (one) Euro each. The shares are freely transferable.</p>	<p>5.1 The share capital is 1,489,538,745 Euros 1,421,342,617 (one billion four hundred twenty-one million three hundred forty-two thousand six hundred seventeen) One billion four hundred eighty-nine million, five hundred thirty-eight thousand, seven hundred forty-five) represented by 1,489,538,745 1,421,342,617 (One billion four hundred eighty-nine million, five hundred thirty-eight thousand, seven hundred forty-five one billion four hundred twenty-one million three hundred forty two thousand six hundred seventeen) shares with a nominal value of 1 (one) Euro each. The shares are freely transferable.</p>

- (ii) acknowledging that the AMGA shareholders who did not participate in the deliberations concerning the Merger will be entitled to withdraw pursuant to and by effect of Article 2437, paragraph 1, letter a) of the Italian Civil Code, provided that the said withdrawal will at any rate gain effectiveness subject to the completion of the Merger;
- (iii) granting the Chairman of the Board of Directors the widest possible powers to give effect to the resolution, even my means of proxy, where required, necessary or appropriate including the power to:
 - stipulate and sign the public deed of merger, establishing every clause and component, thereby including also the date of effectiveness, according to the provisions of the Merger Plan, as well as the exact amount of the share capital in its final amount following the share swap;
 - stipulate and sign any possible acknowledgment, integration and/or adjustment deeds, defining all clauses, terms and methods in accordance with the Merger Plan, consenting to the transfer of ownership and any business area, thereby including real estate and movable assets registered in public records, public and private securities, rights, security deposit, licenses, concessions, credits held with the State and other public entities;
 - take note, in the context of the completion of the Merger, of the new Articles of Association following the Merger in order to also take steps to deposit the required documentation with the Register of Companies;
 - comply with all formalities required for the adopted resolutions to be listed in the Register of Companies, specifically with the authority to communicate the amount of share capital to service the Merger and to effect possible modifications, deletions and/or additions to these resolutions which might be required at the time of registration, provided they are not substantial.



Bologna, 23 January 2014

Hera S.p.A.

for the Board of Directors Chairman -

Tomaso Tommasi di Vignano
