Consolidate quarterly report

as at 31 march 2016

GRUPPO HERA

TABLE OF CONTENTS

Introduction

Governance and Control Bodies	002
Mission	003

Directors' Report

1.01 Overview of Group management and performance	004
1.01.01 Operating results	004
1.01.02 Analysis of the Group's Financial Structure and investments	008
1.01.03 Analysis of Net Cash (Net Borrowings)	010
1.02 Analysis by strategic business area	012
1.02.01 Gas	013
1.02.02 Electricity	017
1.02.03 Integrated Water Cycle	020
1.02.04 Waste Management	024
1.02.05 Other Services	028
1.03 Share Performance and Investor Relations	031
1.04 Reference Scenario and Group Strategy	033
1.05 Personnel structure	036

Hera Group Consolidated Financial Statements

2.01 Financial Statements	037
2.01.01 Income Statements	037
2.01.02 Statement of financial position	038
2.01.03 Cash Flow Statement	040
2.01.04 Statement of changes in equity	041
2.02 Explanatory notes	042
2.03 Net Borrowings	044
2.04 Equity Investments	045

INTRODUCTION

GOVERNANCE AND CONTROL BODIES

Board of Directors	
Chairman	Tomaso Tommasi di Vignano
CEO	Stefano Venier
Vice President	Giovanni Basile
Director	Mara Bernardini
Director	Forte Clò
Director	Giorgia Gagliardi
Director	Massimo Giusti
Director	Riccardo Illy
Director	Stefano Manara
Director	Luca Mandrioli
Director	Danilo Manfredi
Director	Cesare Pillon
Director	Tiziana Primori
Director	Bruno Tani
Board of Statutory Auditors	
Chairman	Sergio Santi
Standing Auditor	Antonio Gaiani
Standing Auditor	Marianna Girolomini
Control and Risk Committee	
Chairman	Giovanni Basile
Member	Massimo Giusti
Member	Stefano Manara
Member	Danilo Manfredi
Remuneration Committee	
Chairman	Giovanni Basile
Member	Mara Bernardini
Member	Luca Mandrioli
Member	Cesare Pillon
Executive Committee	
Chairman	Tomaso Tommasi di Vignano
Vice President	Giovanni Basile
Member	Stefano Venier
Member	Riccardo Illy
Ethics Committee	
Chairman	Massimo Giusti
Member	Mario Viviani
Member	Filippo Maria Bocchi
Independent auditing firm	
	Deloitte &Touche

MISSION

*"Hera's goal is to be the best multi-utility in Italy for its customers, workforce and shareholders. It aims to achieve this through further development of an original corporate model capable of innovation and of forging strong links with the areas in which it operates by respecting the local environment"**.***

"For Hera to be the best means to represent a reason for pride and trust for*: customers, who receive, thanks to Hera's constant responsiveness to their needs, quality services that satisfy their expectations.* ***The women and men who work at Hera,*** *whose skills, engagement and passion are the foundation of the company's success;* ***shareholders****, confident that the economic value of the company will continue to be generated in full respect of the principles of social responsibility****; the reference areas,*** *because economic, social and environmental health represent the promise of a sustainable future; and* ***suppliers,*** *key elements in the value chain and partners for growth".*

REPORT ON OPERATIONS

1.01 OVERVIEW OF GROUP MANAGEMENT AND PERFORMANCE

(€/mln)	Mar 2016		Mar 2015		Abs. Change	% Change
Revenues	**1,235.4**		1,311.9		-76.5	-5.8%
EBITDA	**278.4**	22.5%	277.2	21.1%	+1.2	+0.4%
Operating profit	**170.8**	13.8%	170.1	13.0%	+0.7	+0.4%
Net profit	**96.8**	7.8%	92.5	7.0%	+4.3	+4.7%

1.01.01 OPERATING RESULTS

Constant and balanced growth

The Hera Group, at the end of the first quarter of 2016, showed growth in all economic indicators: EBITDA rose by 0.4%, operating profits by 0.4% and net profits by 4.7%. These results, obtained thanks to the Group's consolidated multi-business strategy, have been achieved in a competitive and increasingly challenging regulatory environment in which the Group operates in a balanced and dynamic way.

The main corporate and business operations that have generated changes in the scope over the first quarter of 2016 are:

- As of 23 December 2015, Herambiente acquired a 100% shareholding in Waste Recycling Spa, whose activities involve the treatment and recovery of special waste in the province of Pisa, and which in turn holds shares in Rew Trasporti Srl and Neweco Srl.

- As of 1 December 2015, Herambiente acquired control of several branches of Geo Nova Spa. In particular, the hazardous and non-hazardous waste storage plant in San Vito al Tagliamento (near Pordenone) and the active landfills for non-dangerous waste in Loria (near Treviso) and Sommacampagna (near Verona) were taken over.

- As of 29 December 2015, Hera Spa sold 90% of Hera Energie Rinnovabili, later renamed Aloe Spa, to third parties, thus removing it from the scope of consolidation.

- As of 1 November 2015, Biogas 2015 became part of the Group's corporate structure. This company's activities involve energy recovery and energy production from waste recycling, and it is also responsible for constructing, installing and managing the plants involved.

- As of 30 December 2015 the stake held by AcegasApsAmga Spa in Trieste Onoranze e Trasporti Funebri was sold.

This consolidated income statement reflects the application of accounting principle IFRIC12 "Service concession arrangements". The effect of applying this principle, which leaves the results unchanged, is that investments made in goods granted under concession, including only network services, are acknowledged in the income statement.

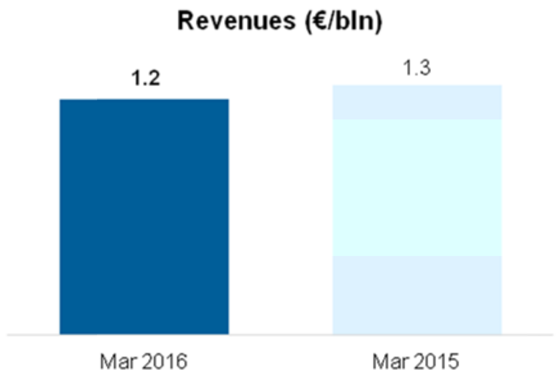
The table below shows the economic results for the first quarter of 2016 and 2015:

Constant and growing increments

Income statement (€/mln)	Mar 2016	% Inc.	Mar 2015	% Inc.	Abs. change	% Change
Revenues	1,235.4		1,311.9		-76.5	-5.8%
Other operating revenues	73.7	6.0%	71.4	5.4%	+2.3	+3.2%
Raw materials	(608.5)	-49.3%	(702.3)	-53.5%	-93.8	-13.4%
Service costs	(281.7)	-22.8%	(266.6)	-20.3%	+15.1	+5.7%
Other operating costs	(12.1)	-1.0%	(9.9)	-0.8%	+2.2	+22.2%
Personnel costs	(132.9)	-10.8%	(131.4)	-10.0%	+1.5	+1.1%
Capitalised costs	4.6	0.4%	4.1	0.3%	+0.5	+12.1%
EBITDA	**278.4**	**22.5%**	**277.2**	**21.1%**	**+1.2**	**+0.4%**
Amort. & Prov.	(107.6)	-8.7%	(107.1)	-8.2%	+0.5	+0.5%
Operating profit	**170.8**	**13.8%**	**170.1**	**13.0%**	**+0.7**	**+0.4%**
Financial operations	(25.7)	-2.1%	(29.4)	-2.2%	-3.7	-12.6%
Pre-tax profit	**145.1**	**11.7%**	**140.7**	**10.7%**	**+4.4**	**+3.1%**
Taxes	(48.4)	-3.9%	(48.2)	-3.7%	+0.2	+0.4%
Net profit of the year	**96.8**	**7.8%**	**92.5**	**7.0%**	**+4.3**	**+4.7%**
Attributable to:						
Shareholders of the Parent Company	**91.2**	**7.4%**	**86.6**	**6.6%**	**+4.6**	**+5.3%**
Non-controlling interests	5.6	0.5%	5.9	0.4%	-0.3	-4.8%

1.2 billion Euros in revenues

Revenues for the first quarter amounted to 1,235.4 million Euros, down 76.5 million Euros (equal to approximately 6%) from the 1,311.9 million Euros seen in the same period of 2015. There are several reasons for this decline: in the gas service, sales volumes decreased by 20 million Euros due to the mild climate; revenues from the sale and trading of electricity and gas have dropped by about 90 million Euros as a result of the decline in the price of raw materials; Finally, in the area of regulated gas, electricity and water services there was a decline of about 9.5 million Euros mainly due to decree 583/2015/R/com, which modified the method for calculating the rate of return on capital invested for infrastructure services in the gas sector and electricity sector as well as decree 664/2015/R/idr, which defines the rules for the second regulatory period. These negative effects were partially offset by higher revenues due to higher volumes of electricity sold, in the amount of approximately 12 million Euros, by greater energy production revenues from thermal power plants and, finally, by an increase in revenues resulting from an increase in waste disposed of.



For further details, see the analyses of the single business areas.

Other operating revenues increased by 2.3 million Euros, 1.7 million Euros of which was due to higher revenues resulting from the application of IFRIC 12 and the remaining amount of which was due mainly to increased payments for sorted waste collection.

Costs of raw and other materials decreased by 93.8 million Euros compared to the first quarter of 2015, equal to a 13.4% change; as with revenues, this change is mainly due to the lower volumes of gas sold, less substantial trading activities and the overall decrease in the cost of raw materials.

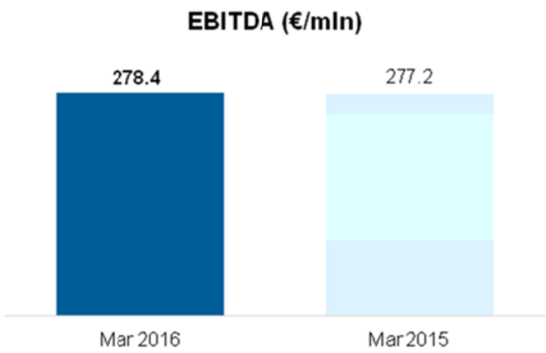
Other operating revenues thus increased by 17.3 million Euros overall (higher costs for services coming to 15.1 million Euros and higher operating expenses coming to 2.2). The increase is mainly due to changes in the scope (5.0 million Euros) and increases in the costs of hosting and transporting electricity and gas (10 million Euros).

Personnel costs rose by 1.5 million Euros (equal to 1.1%), going from 131.4 million Euros in the first quarter of 2015 to 132.9 million Euros in the same period of 2016. This increase is mainly due to the wage increases established by the national collective labour agreement and the entrance of the Environment unit into the company, partially offset by the reduction of the average presence of resources.

As of March 2016, capitalized costs slightly increased, up 0.5 million Euros as compared to the same period of 2015.

EBITDA at 278.4 million Euros (+0.4%)

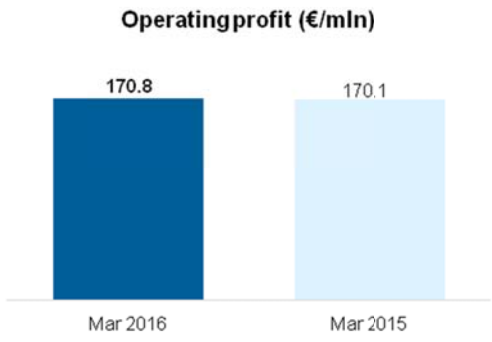
EBITDA rose from the 277.2 million Euros reported for the first quarter of 2015 to 278.4 million Euros as of March 2016, showing an increase of 1.2 million Euros, equal to 0.4%. This result is particularly significant if we consider that the quarter was affected by lower revenues in the gas, electricity and water sector amounting to 9.5 million Euros (3.9 in gas, 0.7 in electricity and 4.9 in water, respectively) following the reduction of the WACC. The growth of the gas sector, amounting to 0.3 million Euros, and the electricity AREA amounting to 3.9 million Euros, offset the decreases in the areas of water cycle and environment.



Amortizations and provisions showed an overall increase of 0.5 million Euros, or 0.5%, going from 107.1 million Euros in the first quarter of 2015 to 107.6 million Euros in the same period of 2016. This increase is due to a change in the scope of consolidation in the amount of 2.0 million Euros, higher amortizations for new investments in the amount of 1.7 million Euros, and higher provisions for doubtful accounts, in particular in the sales companies. This effect is offset by a reduction in the amortization of WTE plants and the change in duties on the former Akron plants following a corporate merger and on some Third Party Goods in the gas area.

Operating profits at 170.8 million Euros (+0.4%)

Operating profits as of March 2016 reached 170.8 million Euros, up 0.7 million Euros or 0.4% as compared to the 170.1 million Euros reported in the same period of 2015.



The result of financial management at the end of the first quarter of 2016 is 25.7 million Euros, an increase of 3.7 million Euros or 12.6% as compared to the same period of 2015. This good performance is due both to lower average debt and to efficiency on rates achieved due to the repayment of certain loans as well as the optimization of cash.

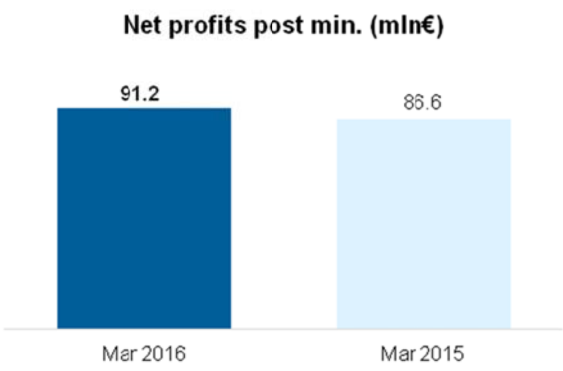
In light of the above, adjusted pre-tax profits rose by 4.4 million Euros, going from the 140.7 million Euros reported in the first quarter of 2015 to the 145.1 million Euros reported in the same period of 2016.

The taxes for the first quarter of 2016, amounting to 48.4 million Euros, comprise a tax rate of 33.3%, an improvement as compared to the same period of 2015 (34.3%). The reason for this decrease is mainly due to the benefits that will be enjoyed in the 2016 tax year resulting from the application of the "patent box" and tax credit for research and development (2015 Stability Law) as well as the concessions in terms of maxi-amortizations (2016 stability Law).

Net profits therefore rose by 4.7% or 4.3 million Euros, rising from the 92.5 million Euros reported in the first quarter of 2015 to the 96.8 million Euros reported in the same period of 2016.

Net profits post minority interests at 91.2 million Euros (+5.3%)

Group profits came to 91.2 million Euros, up 4.6 million Euros from the first quarter of 2015, thanks among other things to a reduction of minority interests mainly derived from the complete acquisition of Akron and Romagna Compost.



1.01.02 ANALYSIS OF THE GROUP'S FINANCIAL STRUCTURE AND INESTMENTS

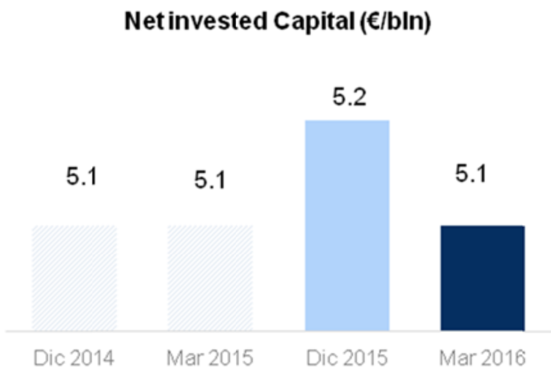
Group size increases

The table below shows changes in the Group's net invested capital and sources of financing for the period ending 31 March 2016.

Invested capital and sources of financing (€/mln)	31 Mar 2016	% Inc.	31 Dec 2015	% Inc.	Abs. change	% Change
Net non-current assets	5,509.0	108.0%	5,511.3	106.9%	(2.3)	(0.0%)
Net working capital	105.0	2.1%	157.0	3.0%	(52.0)	(33.1%)
(Provisions)	(512.7)	-10.1%	(513.5)	-10.0%	+0.8	(0.2%)
Net invested capital	**5,101.3**	100.0%	5,154.8	100.0%	(53.5)	(1.0%)
Equity	(2,596.8)	50.9%	(2,503.1)	48.6%	(93.7)	+3.7%
Long-term borrowings	(2,746.5)	53.8%	(2,743.6)	53.2%	(2.9)	+0.1%
Net cash/short term borrowings	242.0	-4.7%	91.9	-1.8%	+150.1	+163.3%
Net borrowings	(2,504.5)	49.1%	(2,651.7)	51.4%	+147.2	(5.6%)
Total sources of financing	**(5,101.3)**	-100.0%	(5,154.8)	100.0%	+53.5	(1.0%)

Net invested capital reaches 5.1 billion Euros

As of 31 March 2016, the amount of invested capital decreased as compared to 31 December 2015. The change is wholly due to a positive trend in net working capital which, in addition to the decrease due to the seasonal nature of the core business, registered a further reduction due to the good performance of trade receivables.



Net investments rise to 68.5 million Euros

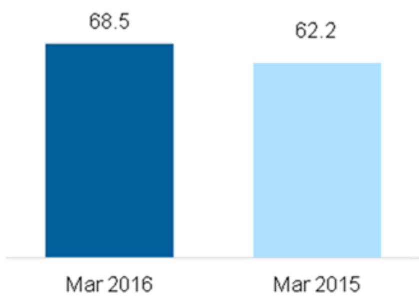
In the first quarter of 2016, Group investments amounted to 68.5 million Euros, benefiting from 4.5 million Euros in capital grants, of which 2.6 million Euros for the New Investments Fund (FoNI), as provided for by the tariff method for the Integrated Water Service. Including capital grants, the Group's overall investments came to 73.0 million Euros. Net investments grew by 6.3 million Euros, going from the 62.2 million Euros reported in March 2015 to the 68.5 million Euros reported in 2016.

The following table shows total investments including capital grants, subdivided by sector, with the total amount of capital grants and separate mention of the FoNI:

Total investments (€/mln)	**Mar 2016**	Mar 2015	Abs. Change	% Change
Gas area	19.5	12.7	+6.8	+53.5%
Electricity area	3.9	4.0	-0.1	-2.5%
Water cycle area	30.1	30.2	-0.1	-0.3%
Waste management area	6.3	5.3	+1.0	+18.9%
Other services area	2.8	2.5	+0.3	+12.0%
Headquarters	10.5	9.5	+1.0	+10.5%
Total operating investments	**73.0**	64.1	+8.9	+13.9%
Total financial investments	0.0	0.0	+0.0	+0.0%
Total gross investments	**73.0**	64.1	+8.9	+13.9%
Capital contributions	4.5	1.9	+2.6	+136.8%
of which FoNI (New Investment Fund)	*2.6*	*1.8*	*+0.8*	+44.4%
Total net investments	**68.5**	62.2	+6.3	+10.1%

Strong commitment to investment in plants and infrastructures continues

Capital expenditure, amounting to 73.0 million Euros, rose 13.9% as compared to the first quarter of 2015 and mainly concerned interventions on plants, networks and infrastructures. In addition, updating activities were performed as required by new regulations mainly concerning the gas sector, effecting a large-scale operation replacing meters, as well as the purification and sewerage area. Remarks on investments in each single area are included in the analyses by business area.



Group headquarters: investments in offices, IT systems and fleets

At the Group's headquarters, investments concerned interventions on corporate buildings, IT systems and the vehicle fleet, as well as laboratories and remote control structures. Overall investments in structures rose by 1.0 million Euros as compared to March 2015, prevalently in the IT systems and work carried out in the corporate offices.

Provisions at 512.7 million Euros

As of March 2016, the funds totalled 512.7 million Euros, in line with December 2015 thanks to the provisions for the period which were substantially equivalent to the expenditures for use.

2.6 billion Euros in equity

Equity increased from 2.5031 billion Euros as of 31 December 2015 to 2.5968 billion Euros as of 31 March 2016, thanks to the contribution made by the results for the period, which equaled 96.8 million Euros.

1.01.03 ANALYSIS OF THE GROUP'S FINANCIAL STRUCTURE

A solid financial position

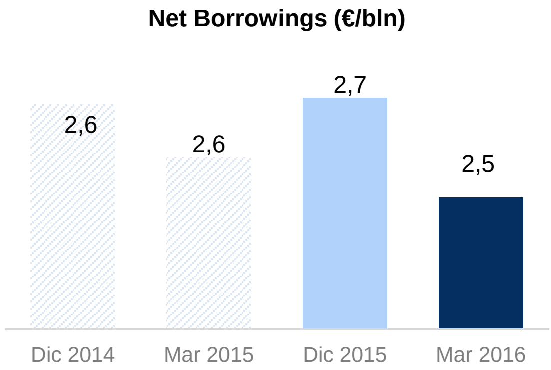
Analysis of net financial debt:

(€/mln)		31 Mar 2016	31 Dec 2015
a	**Cash and cash equivalents**	**385**	541
b	**Other current financial receivables**	**35**	35
	Current financial debt	(80)	(129)
	Current bank debt	(89)	(285)
	Other current financial liabilities	(7)	(68)
	Finance lease payments maturing within 12 months	(2)	(2)
c	**Current financial debt**	**(178)**	(484)
d=a+b+c	**Net current financial debt**	**242**	92
	Non-current bank debt and bonds issued	(2,850)	(2,845)
	Other non-current financial liabilities	(6)	(6)
	Finance lease payments maturing after 12 months	(17)	(18)
e	**Non-current financial debt**	**(2,873)**	(2,869)
f=d+e	**Net financial position - CONSOB Communication No 15519 of 28/07/2006**	**(2,631)**	(2,777)
g	**Non-current financial receivables**	**127**	125
h=f+g	**Net financial debt**	**(2,504)**	(2,652)

Current debt is mainly made up of operations using bank accounts, in the amount of approximately 40 million Euros, and of instalments of bank loans coming to maturity, in the amount of approximately 89 million, a decrease as compared to 31 December 2015 as a result of repayment of the 195.4 million Euros bond that occurred in February 2016. The amount related to non-current bank debt and bonds is prevalently made up of bonds issued on the European market and listed on the Luxembourg Stock Exchange (77.3% of the total), with repayment at maturity.
Debt overall shows an average term to maturity of approximately 8.4 years, with 73% maturing after more than 5 years.

Net borrowings drop to 2.50 billion Euros

Net borrowings decreased from the 2,651.7 reported in 2015 to the 2,504.5 reported as of 31 March 2016. This decline, part of which is physiological and linked to the seasonal nature of the gas business, is further enhanced by a good level of trade receivables.

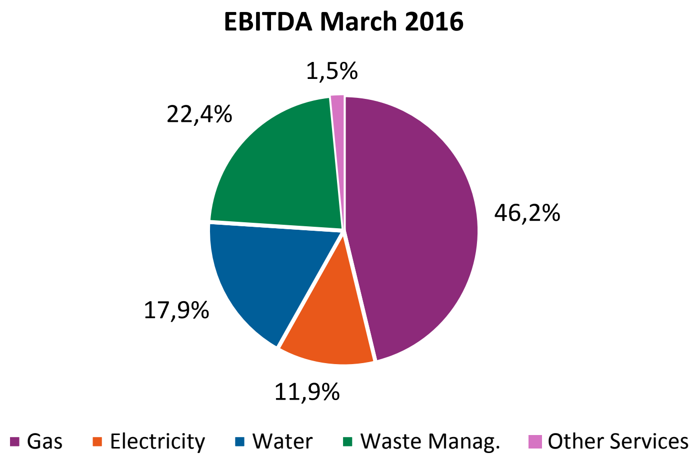


1.02 ANALYSIS BY STRATEGIC BUSINESS AREA

An analysis of the results achieved by management in the various business areas in which the Group operates is provided below, including: the gas area, which covers services in natural gas and LPG distribution and sales, remote heating and heat management; the electricity area, which covers services in electricity production, distribution and sales; the integrated water cycle area, which covers aqueduct, purification and sewerage services; the waste management area, which covers services in waste collection, treatment, recovery and disposal; the other services area, which covers services in public lighting and telecommunications, as well as other minor services.

Contribution coming from the various areas to Group EBITDA highlights a balanced mix, coherent with the Group's multi-business strategy.

Energy areas play a significant role, totalling roughly 58% of EBITDA



The Group's income statements include corporate headquarter costs and reflect intercompany transactions accounted for at market price.

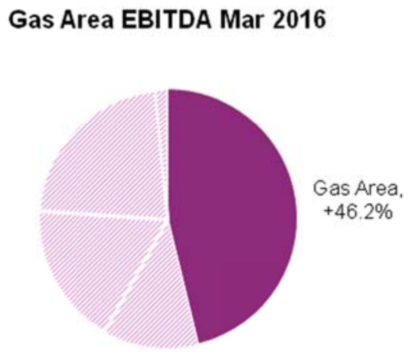
The following analysis of each single business area take into account all increased revenues and costs, with no impact on EBITDA, related to the application of IFRIC 12, as shown in the Group's consolidated income statement. The business areas affected by IFRIC 12 are: natural gas distribution services, electricity distribution services, all integrated water cycle services and public lighting services.

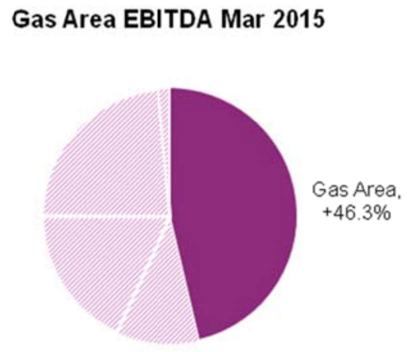
1.02.01 GAS

Gas: marginality in line with the past

The first quarter of 2016 shows the gas sector slightly increased as compared to the same period of the last financial year. These results should be understood within a regulatory context in which, in 2016, Resolution 583/2015 / R / com of 02.12.2015 which modified the method for calculating the rate of return on invested capital for infrastructure services in the gas sector was first implemented, in order to establish a more transparent and predictable regulatory framework. The negative impact of the resolution on revenues and EBITDA is 3.9 million Euros for the first quarter of the year.

Contribution to total EBITDA in line with the past





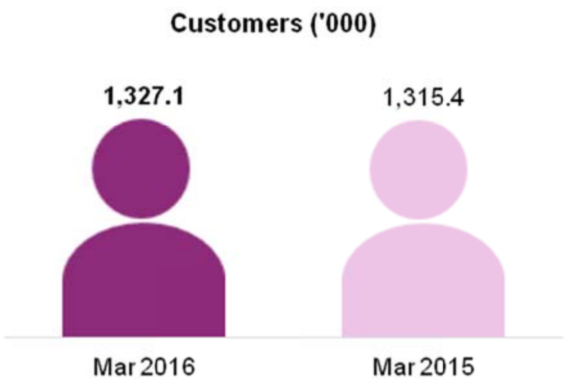
The EBITDA for the gas area increased by 0.2%

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

(€/mln)	Mar 2016	Mar 2015	Abs. Change	% Change
Area EBITDA	**128.7**	**128.4**	**+0.3**	**+0.2%**
Group EBITDA	**278.4**	277.2	+1.2	+0.4%
Percentage weight	46.2%	46.3%	-0.1 p.p.	

1.3 million gas customers

The number of gas customers increased 0.9%, as compared to the first quarter of 2015. This change is due to both commercial and customer loyalty initiatives set in place to contrast competition, as well as a wider customer base, in central Italy in particular, thanks to the acquisition of Alento Gas in May 2015.



Reduction in volumes sold: -7.4%

Volumes of gas sold decreased by 101.1 million m3 (7.4%), going from 1,362.3 million m3 in the first quarter of 2015 to 1,261.2 in the first quarter of 2016. The main factors behind this performance were the mild climate and a reduction in trading volumes, amounting to 32.5 million m3 (-2.6% of total volumes). The trend in degree days shows a decrease of 5% over the previous year and 13% compared to the historical average.

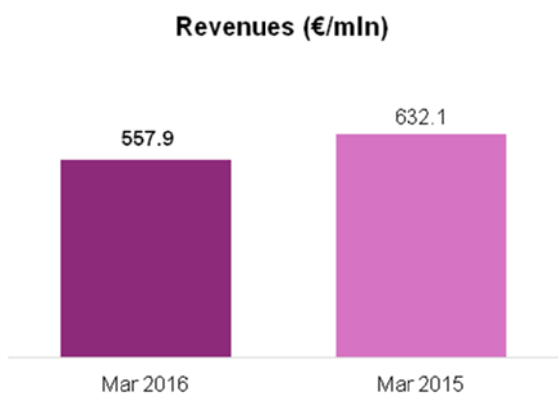
The following table summarises the economic results for this area:

Gas: increase in overall earnings

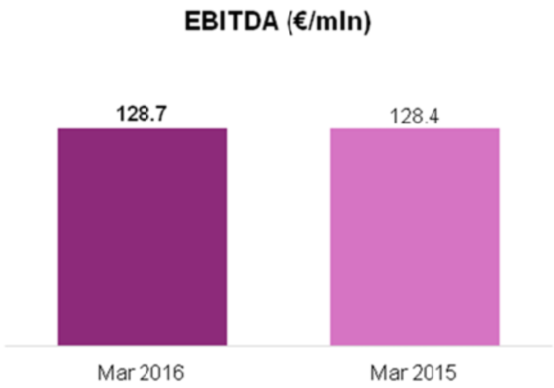
Income statement (€/mln)	**Mar 2016**	% Inc.	**Mar 2015**	% Inc.	Abs. change	% Change
Revenues	**557.9**		632.1		-74.2	-11.7%
Operating costs	**(394.1)**	-70.6%	(467.5)	-74.0%	-73.4	-15.7%
Personnel costs	**(36.8)**	-6.6%	(37.5)	-5.9%	-0.7	-1.9%
Capitalised costs	**1.7**	0.3%	1.4	0.2%	+0.3	+21.4%
EBITDA	**128.7**	23.1%	128.4	20.3%	+0.3	+0.2%

Gas revenues at 557.9 million Euros

Revenues went from 632.1 million in the first quarter of 2015 to 557.9 million Euros in the same period of 2016, a decrease of 74.2 million Euros or -11.7%. The main reasons are: a decrease in natural gas volumes sold of approximately 23 million Euros, a decrease in the price of the raw material of approximately 41 million Euros; a decrease in trading activities of approximately 6 million Euros due mainly to lower volumes traded; and lower regulated revenues in the amount of 3.9 million Euros mainly due to the reduction of the WACC.



The reduction in revenues is proportionately reflected in the reduction in operating costs, which went from 467.5 million Euros in the first quarter of 2015 to 394.1 million Euros in 2016, thus displaying an overall decrease of 73.4 million Euros as compared to the first quarter of 2015.

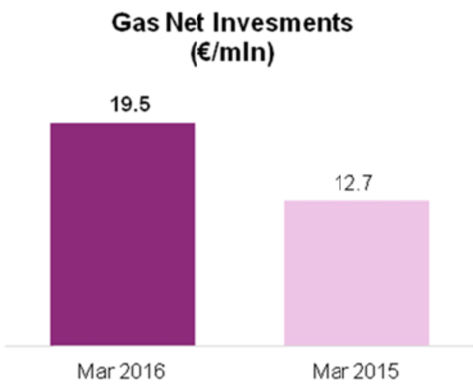


Gas EBITDA: 128.7 million Euros

EBITDA rose by 0.3 million Euros (0.2%), going from 128.4 million Euros in the first quarter of 2015 to 128.7 million Euros in the same period of 2016, thanks to the larger volumes of sales and trading, in which lower revenues for the volumes sold were offset by the lower costs purchasing costs for the raw material and higher margins in the district heating and heat management service; this positive trend essentially compensated for the lower revenues from regulated services as a result of the WACC in the amount of 3.9 million Euros.

Net investments in the Gas Area: 19.5 million Euros

In the first quarter of 2016, investments in the gas area came to 19.5 million Euros, recording an increase of 6.8 million Euros as compared to the same period of the previous year. In gas distribution, there was an increase of 2.7 million Euros which was mainly driven by activities of regulatory compliance pursuant to Legislative Decree 554/15 (formerly Legislative Decree 631/13) for a large-scale operation of replacing meters which also involves lower class equipment (G4-G6) and increased extraordinary maintenance on networks and plants.



In the first quarter of 2016 there was a slight increase in demand for new connections as compared to the previous year, although this sector continues to suffer from the effects of the overall economic situation.

Investments grew by 4.1 million Euros in the district heating and heat management sector as well, 1.9 million Euros of which was due to the revamping of the cogeneration plant in Bologna's Barca neighbourhood in district heating and 2.2 million Euros of which was due to heat management, mainly in Sinergie Spa due to the combined effect of moving up various 2016 projects with the delay of some jobs that occurred in the first quarter of 2015.

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

Investments grow

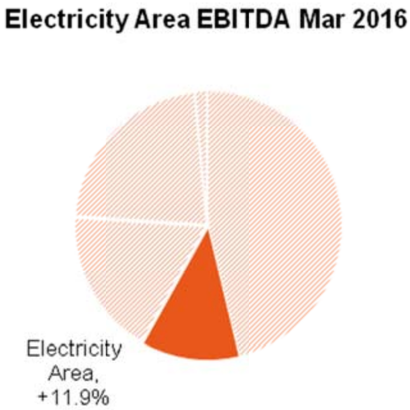
Gas (€/mln)	**Mar 2016**	Mar 2015	Abs. change	% Change
Networks and plants	13.3	10.6	+2.7	+25.5%
RH/Heat management	6.1	2.0	+4.1	+205.0%
Total Gas Gross	**19.5**	12.7	+6.8	+53.5%
Capital contributions	0.0	0.0	+0.0	+0.0%
Total Gas Net	**19.5**	12.7	+6.8	+53.5%

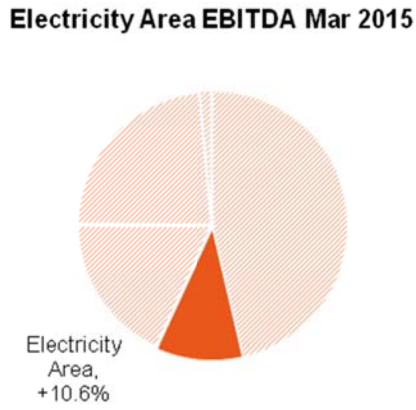
1.02.02 ELECTRICITY

Electricity: rise in EBITDA

In the first quarter of 2016, the Electricity sector grew both in absolute terms and in terms of percentage of the Group's EBITDA. These results should be understood within a regulatory context in which, in 2016, Resolution 583/2015 / R / com of 02.12.2015 which modified the method for calculating the rate of return on invested capital for infrastructure services in the electricity sector was first implemented, in order to establish a more transparent and predictable regulatory framework. The negative impact of the resolution on revenues and EBITDA for the WACC alone comes to 0.7 million Euros for the first quarter of the year.

Contribution to Group EBITDA: +1.3%





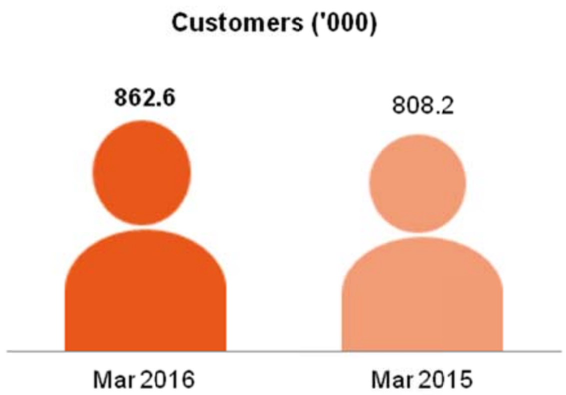
The following table shows the changes occurred in terms of EBITDA:

Electricity area EBITDA grew by 13.3%

(€/mln)	Mar 2016	Mar 2015	Abs. change	% Change
Area EBITDA	**33.2**	**29.3**	**+3.9**	**+13.3%**
Group EBITDA	**278.4**	277.2	+1.2	+0.4%
Percentage weight	11.9%	10.6%	+1.3 p.p.	

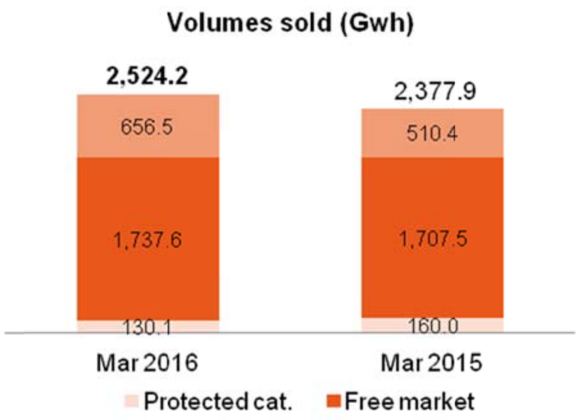
862.6 thousand electricity customers

The number of electricity customers recorded an increase of 6.7% (54.4 thousand), mainly due to growth in the free market, which came to 13.3%, confirming the trend of growth seen in recent years, owing above all to a reinforcement of commercial activities, implemented during 2016 as well.



Volumes sold rose by 6.2%

Volumes of electricity sold went from 2,377.9 GWh in the first quarter of 2015 to 2,524.2 GWh in the same period of 2016, with an overall increase of 6.2%. The increase in sales volumes was mainly due to the strengthening of commercial activity and the increase in volumes sold to entities in Safeguarding.



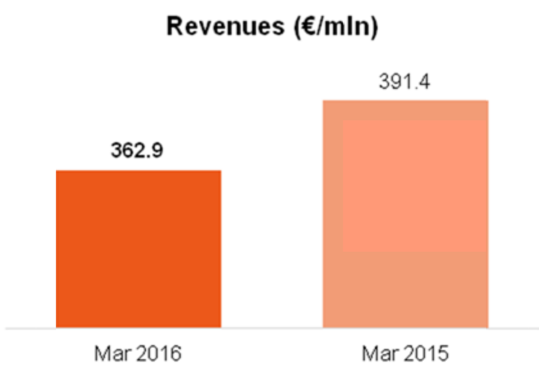
The following table summarises the income statement for the area:

Electricity: rise in EBITDA

Income statement (€/mln)	Mar 2016	% Inc.	Mar 2015	% Inc.	Abs. change	% Change
Revenues	**362.9**		391.4		-28.5	-7.3%
Operating costs	**(319.4)**	-88.0%	(353.6)	-90.3%	-34.2	-9.7%
Personnel costs	**(11.7)**	-3.2%	(10.0)	-2.6%	+1.7	+17.0%
Capitalised costs	**1.4**	0.4%	1.5	0.4%	-0.1	-6.7%
EBITDA	**33.2**	9.1%	29.3	7.5%	+3.9	+13.3%

Electricity revenues for 362.9 million Euros

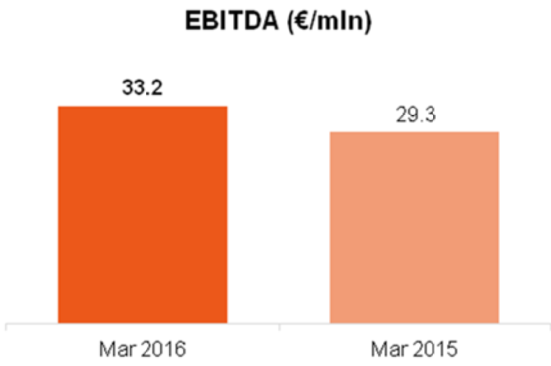
Revenues decreased by 7.3%, going from 391.4 million in the first quarter of 2015 to 362.9 million Euros in the same period of 2016, a decrease of 28.5 million Euros. The main reasons of this contraction are: a drop in the price of electricity (Pun), which decreased by an average of 24% as compared to the previous year leading to a decrease in sales revenues in the amount of 19 million Euros and a decrease in trading revenues in the amount of 27 million Euros, and lower regulated revenues of the distribution service in the amount of 0.7 million Euros mainly due to the reduction of the WACC. These effects were partly contained thanks to both higher volumes sold in the amount of approximately 12 million euros related to increased business activity, which generates the largest energy production revenues from power plants due to favorable market conditions, and the optimization activities carried out.



Operating costs fell by 34.2 million Euros, or 9.7%, in proportion to the decrease in revenues.

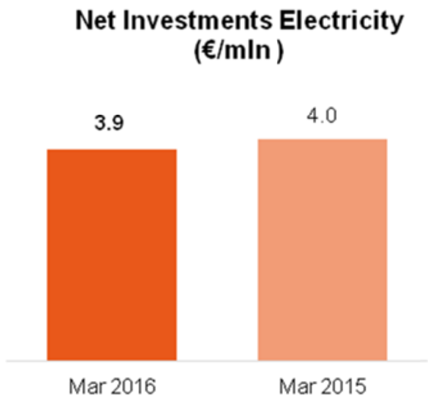
Electricity EBITDA at 33.2 million Euros

At the end of the first quarter of 2016, the EBITDA rose by 3.9 million Euros (13.3%), going from Euro 29.3 million in the first quarter of 2015 to 33.2 million Euros in the same period of 2016, thanks to the higher margins in sales and trading activities, and higher marginality in the production of electricity. This decrease is partially compensated for by lower revenues from the regulated distribution service in the amount of 0.7 million Euros.



Net investments in the Electricity Area: 3.9 million Euros

Investments in the electricity area amounted to Euro 3.9 million Euros, as compared to 4.0 million Euros in the first quarter of the previous year.
The interventions implemented mainly concerned non-routine maintenance of plants and distribution networks in the areas surrounding Modena, Imola, Trieste and Gorizia.
Compared to the same period of the previous year, a lower amount of non-routine maintenance was carried out on networks and plants, in the amount of 0.4 million Euros. In this area as well, connections showed a slight increase compared to the previous year.
As regards industrial cogeneration for Energy Service activities, interventions rose by 0.3 million euros compared to the same period of the previous year.



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

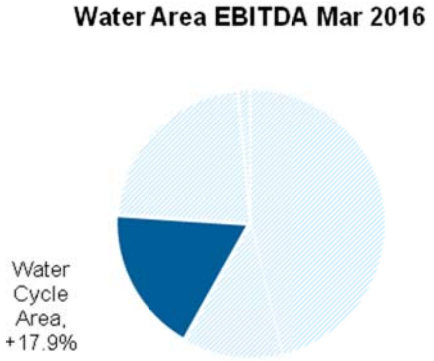
Eletricity (€/mln)	Mar 2016	Mar 2015	Abs. change	% Change
Networks and plants	3.6	4.0	-0.4	-10.0%
Industrial cogeneration	0.3	0.0	+0.3	+100.0%
Total Electricty Gross	**3.9**	4.0	-0.1	-2.5%
Capital contributions	0.0	0.0	+0.0	+0.0%
Total Electricity Net	**3.9**	4.0	-0.1	-2.5%

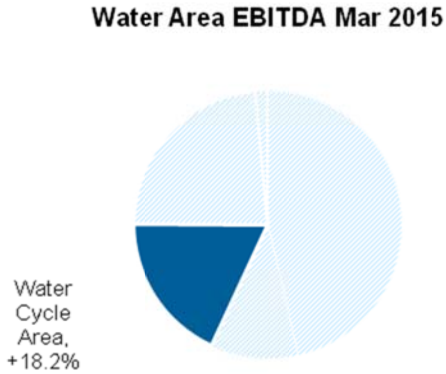
1.02.03 INTEGRATED WATER CYCLE

Integrated Water Cycle: slight drop

In the first quarter of 2016, the integrated water cycle area recorded a slight drop over the same period of 2015, both as a contribution to Group EBITDA and in absolute terms. 2016 is the first year in which the water tariff method defined by the AEEGSI (with resolution number 664/2015) was applied for the period 2016-2019, with the main effect of reducing the WACC. The negative impact of the resolution on revenues and EBITDA for the WACC alone amounts to 4.9 million Euros for the first quarter of the year.

Contribution to Group EBITDA: -0.3%





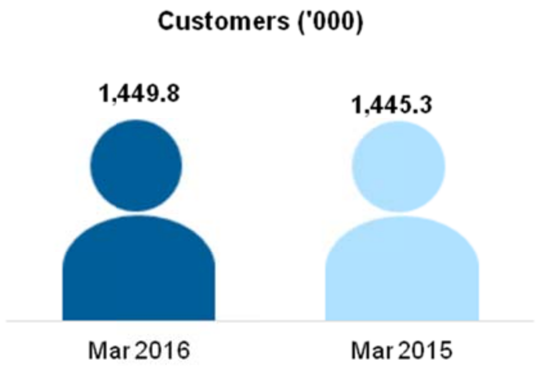
The following are changes occurred in terms of EBITDA:

The water cycle area EBITDA fell by 1.3%

(€/mln)	Mar 2016	Mar 2015	Abs. change	% Change
Area EBITDA	**49.8**	50.5	(0.7)	(1.3%)
Group EBITDA	**278.4**	277.2	+1.2	+0.4%
Percentage weight	17.9%	18.2%	-0.3 p.p.	

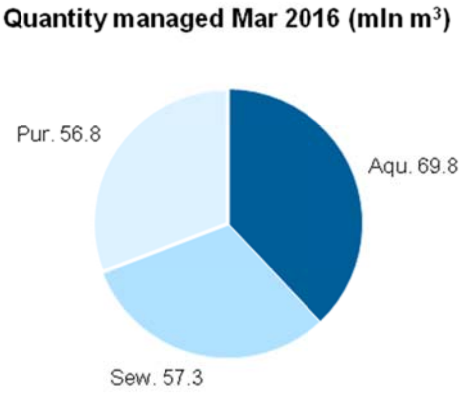
Water Cycle customers are 1.4 million

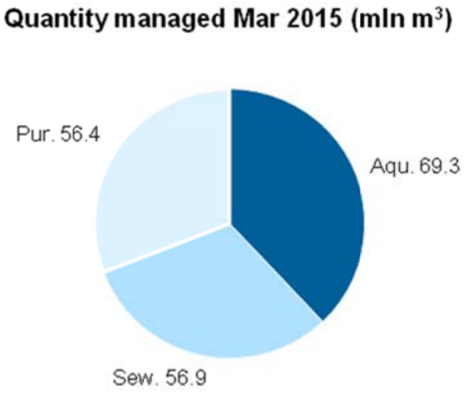
The number of water customers settled at 1.4 million, increasing by 4.5 thousand (+0.3%) as compared to the first quarter of 2015, confirming the trend towards organic growth seen across the Group's reference areas. Of the 78% of the growth concerned areas in the Emilia Romagna region managed by Hera Spa, 15% referred to areas served by AcegasApsAmga and the remainder was reported in areas served by the Marche Multiservizi Group, thanks to the slight increase in the number of connections.



The main metrics for this sector are shown below:

69.8 million m³ managed in the aqueduct





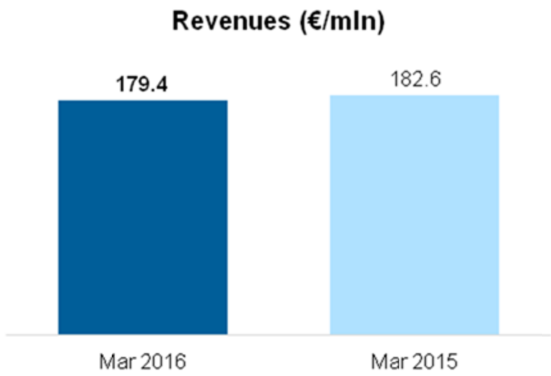
Volumes provided, through the aqueduct, are substantially in line with the first quarter of 2015. Volumes dispensed, in line with AEEGSI resolution 664/2015, are an indicator of activities in the geographical areas in which the Group operates and are subject to equalisation pursuant to regulations that call for a regulated revenue to be recognised independently of the volumes distributed.

The following summarises the income statement for the area:

Integrated Water Cycle: slight drop in EBITDA

Income statement (€/mln)	Mar 2016	% Inc.	Mar 2015	% Inc.	Abs. change	% Change
Revenues	**179.4**	**-**	182.6	-	(3.2)	(1.8%)
Operating costs	**(94.3)**	-52.6%	(97.1)	-53.2%	(2.8)	(2.9%)
Personnel costs	**(35.7)**	-19.9%	(35.4)	-19.4%	+0.3	+0.8%
Capitalised costs	**0.5**	0.3%	0.5	0.3%	+0.0	+0.0%
EBITDA	**49.8**	27.8%	50.5	27.7%	(0.7)	(1.3%)

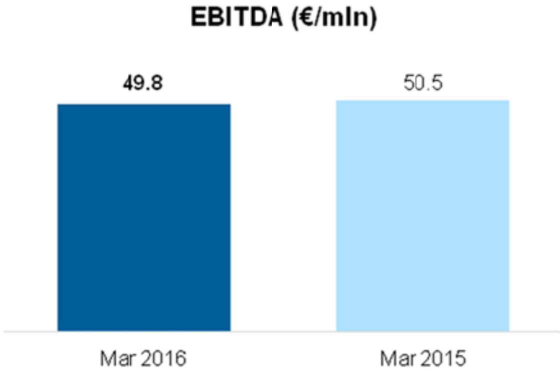
Revenues for the Integrated Water Cycle at 179.4 million euros



Revenues decreased by Euro 1.8% million euros in the first quarter of 2016 as compared to the same period of 2015, going from 182.6 million Euros in 2015 to 179.4 million Euros in the first quarter of 2016. The main reasons are lower revenues from distribution in the amount of 4.9 million euros, as a consequence of the reduction of the WACC, despite higher revenues to cover the costs reported by the authority, and lower revenues from subcontracted works in the amount of 1.3 million Euros. These effects are partially compensated for by higher revenues from new connections.

Operating costs decreased by 2.8 million Euros (2.9%), mainly due to a 1.3 million Euro decrease in subcontracted works linked to the current state of progression of contracted projects, and lower costs for the application of the IFRIC12 principle in the amount of 1.8 million Euros.

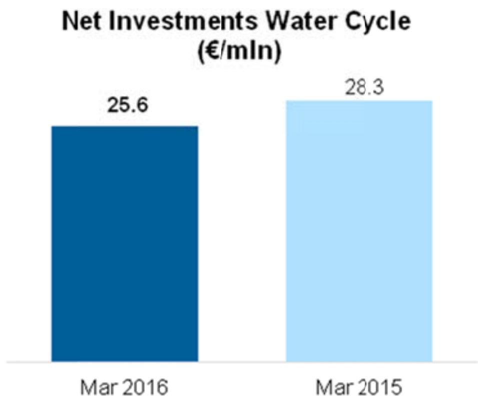
EBITDA rises to 49.8 million Euros



EBITDA slightly dropped by 0.7 million Euros (1.3%), going from 50.5 million Euros in the first quarter of 2015 to 49.8 million Euro in the same period of 2016, due to lower distribution revenues caused by the decrease of the WACC in the amount of 4.9 million Euros, which are only in part compensated for by lower operating costs.

Investments in the Water Cycle Area: 25.6 million Euros

Net investments in the integrated water cycle area amounted to 25.6 million Euros, showing a decrease of 2.7 million Euros over the previous year. Including capital grants, investments in this area amounted to 30.1 million Euros, substantially in line with the previous year.



Interventions in the water cycle mainly concerned extensions, reclamations and network and plant upgrading, in addition to regulatory upgrading, which concerned above all purification and sewerage.
Investments totalled 15.1 million Euros in the aqueduct, 8.1 million Euros in sewerage and 6.9 million Euros in purification.
Among the more significant works, the following are of note: in the aqueduct sector, water system interconnections and networks and plant upgrading, including a particularly complex and substantial upgrading of water networks in the historical centre of Bologna; in sewerage, progress was made in work on the Rimini Seawater Protection Plan, including the creation of the Ausa tank; in purification, the balancing tank of the Riccione purification plant was built, and revamping was carried out on the oxygen production plant of the Idar purifier in Bologna, in addition to continuing with upgrading the Servola, Cà Nordio and Abano Terme purifiers in the territory of AcegasApsAmga.
Requests for new water and sewerage connections increased by 0.3 million Euros as compared to the previous year, confirming the improvement displayed by the gas and electricity areas in the area of water service as well.
Capital grants amounted to 4.5 million Euros, of which 2.6 million Euros were due to the tariff component for the new investments fund (FoNi) and increased as compared to the first quarter of 2015 by 2.7 million Euros.

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

Water Cycle Area (€/mln)	**Mar 2016**	Mar 2015	Abs. change	% Change
Aqueduct	15.1	14.3	+0.8	+5.6%
Purification	6.9	7.3	-0.4	-5.5%
Sewage	8.1	8.6	-0.5	-5.8%
Total Water Cycle Gross	**30.1**	30.2	-0.1	-0.3%
Capital contributions	4.5	1.8	+2.7	+150.0%
of which FoNI (New Investment Fund)	*2.6*	*1.8*	+0.8	+44.4%
Total Water Cycle Net	**25.6**	28.3	-2.7	-9.5%

1.02.04 WASTE MANAGEMENT

In the first quarter of 2016, the waste management area accounted for 22.4% of the Hera Group's profitability, with an EBITDA dropping by 3.8% compared to the first quarter of 2015.

Below are the variations in EBITDA:

Waste Management: decreasing EBITDA

(€/mln)	Mar 2016	Mar 2015	Abs. change	% Change
Area EBITDA	**62.4**	**64.9**	**-2.5**	**-3.8%**
Group EBITDA	**278.4**	277.2	+1.2	+0.4%
Percentage weight	22.4%	23.4%	-1.0 p.p.	

Urban Waste: +0.2%

The table displays an analysis of the volumes sold and processed by the Group during the first quarter of 2016:

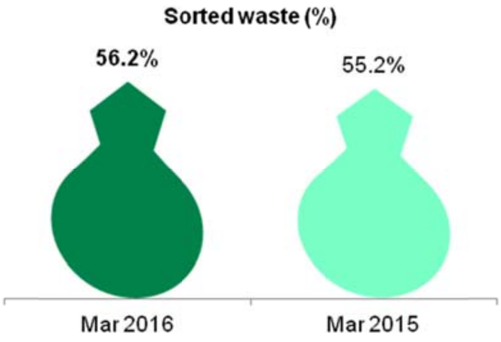
Quantitative data (thousand of tonnes)	**Mar 2016**	Mar 2015	Abs.Change	% Change
Urban waste	471.0	470.1	+0.9	+0.2%
Market waste	581.0	468.7	+112.3	+24.0%
Waste marketed	**1,052.0**	**938.8**	**+113.2**	**+12.1%**
Plant by-products	625.7	647.2	-21.5	-3.3%
Waste treated by type	**1,677.7**	**1,586.0**	**+91.7**	**+5.8%**

A trade volume analysis shows a 12.1% rise in marketed waste, mainly resulting from growth (24.0%) in the waste market. This growth is the effect of the late 2015 Waste Recycling and Geonova acquisitions, which was a substantial boost to the industrial waste management sector.

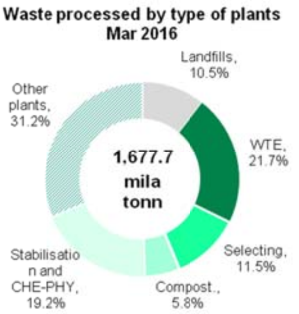
Urban waste is in line with the first quarter of 2015 (0.2%), with a different mix between separate waste, growing by 4.6%, and mixed waste, falling by 4.3%.

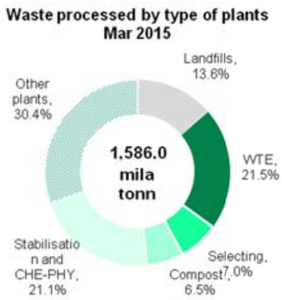
+1.0 % in sorted wasted

Mainly on account of the new projects aimed to its expansion, sorted waste collection grew further from 55.2% to 56.2%. The high recovery percentage entails greater environmental benefits, as well as an increased flexibility in plant capacity. In the areas managed by Hera Spa, sorted collection increased by almost one percentage point in the first quarter of 2016. It increased by almost two percentage points in the Marche Multiservizi territories, while a steady growth with an increase by over 3 percentage points is still confirmed in 2016 in the Triveneto.



Landfill use on the decline





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Urban waste	471.0	470.1	+0.9	+0.2%
Market waste	581.0	468.7	+112.3	+24.0%
Waste marketed	**1,052.0**	**938.8**	**+113.2**	**+12.1%**
Plant by-products	625.7	647.2	-21.5	-3.3%
Waste treated by type	**1,677.7**	**1,586.0**	**+91.7**	**+5.8%**

The Hera Group operates in the full waste cycle with 83 treatment and disposal plants for urban and special waste, with its main facilities being: 10 waste-to-energy plants, 11 composters/digesters and 8 selection plants.

The waste treatment sector shows a slight growth as compared to the first quarter of 2015 in the use of waste-to-energy plants, and a decline in the use of landfills, as was the case throughout 2015. The larger volumes handled by the selection plants are mainly due to the acquisition of Waste Recycling.

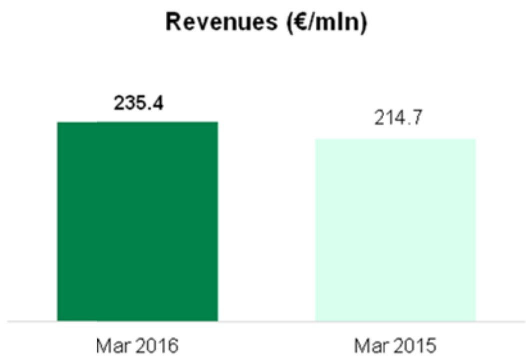
It is worth mentioning that the environment sector underwent major changes - corporate and organizational - in the second quarter of last year, i.e. the acquisition of the entire share capital of the Akron companies, 57.5% of which is held by Herambiente; before the acquisition, the company dealt with selecting separate collection materials through a chain of dedicated facilities. Eventually, the waste disposal activities for Padua and Trieste were transferred over to Herambiente, and Hestambiente, a company aimed at improving integration, efficiency and full control of the WTE plants group wide, was established. Moreover, Romagna Compost and Herambiente Recovery were merged, whereas Biogas 2015, the business unit containing a few Geo Nova plants, and the Waste Recycling Group were acquired. Here is a summary of the sector results:

Waste Management: slight marginality downturn

Income statement (€/mln)	Mar 2016	% Inc.	Mar 2015	% Inc.	Abs. change	% Change
Revenues	**235.4**		214.7		+20.7	+9.6%
Operating costs	**(129.7)**	-55.1%	(106.6)	-49.6%	+23.1	+21.7%
Personnel costs	**(43.9)**	-18.7%	(43.7)	-20.4%	+0.2	+0.5%
Capitalised costs	**0.6**	0.3%	0.5	0.2%	+0.1	+19.7%
EBITDA	**62.4**	26.5%	64.9	30.2%	-2.5	-3.9%

235.4 million Euros in revenues from Waste Management

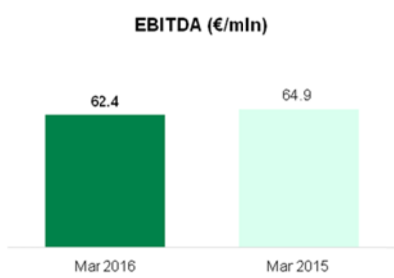
IIn the first quarter of 2016, revenues increased by 9.6% (equalling 20.7 million euros), increasing from 214.7 million euros in the first three months of 2015 to 235.4 million euros in the same 2016 period. This increase is a result of the larger volumes handled, of higher urban hygiene revenues, of extra service coverage and of the average price increase for special/hazardous waste; all of these offset the lower revenues from electricity production, ensuing - among other factors - from a lower CIP6/CEC unit price and from a decreased recognition of green certificates in some facilities.



The area operating costs rose by 23.1 million Euros in the first quarter of 2016, as a result of the spread of sorted waste collection, which entails handling more waste and delivering more collection and street cleaning services.

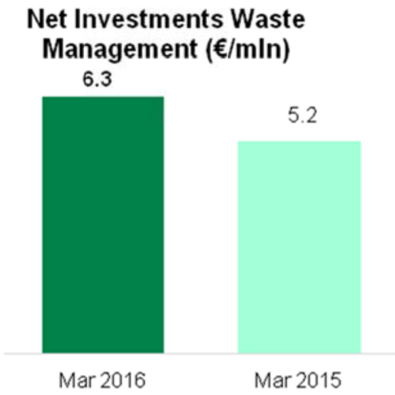
Waste Management EBITDA at 62.4 million

The EBITDA fell from 64.9 million Euros in the first quarter of 2015 to 62.4 million Euros in the same period of 2016, which denotes a slight decline in absolute terms in the amount of 2.5 million Euros or 3.8%.



6.3 million Euros net investments in Waste Management

Net investments in the Waste Management area involve facility maintenance and upgrading, and amount to 6.3 million Euros, up by 1.1 million Euros as compared to the first quarter of 2015. The composter/digester chain is more balanced compared to the previous year. The year saw an increase in the Sant'Agata composting investments in biomethane activities, which is offset by fewer interventions in the Rimini and Voltana plants during 2015.



The separation and biostabilization investments of former Akron in Tre Monti have also been accounted for. The 2.5 million Euro increase in landfill investments is mainly due to the enactment of the 9th sector in the Ravenna landfill, in addition to the Tre Monti landfill activities, providing for the construction of a new engine and for the biogas collection network, as well as for landslide and road development works. In the WTE chain, investments dropped by 0.7 million Euros as compared to the previous year, due to additional work on the Padua and Trieste systems in the first quarter of 2015.

Investments in the Special Waste Plant chain are substantially in line with the previous year. A slight drop in maintenance affected the Ravenna plants (sludge dryer, enhancement of the cooling towers and replacement of the vibrating sieves).

As for selection and transshipment facilities, investments are broadly in line with the same period last year, and are offset by minor operations carried out on the different plants (Bologna in 2015, Sassuolo and Cervia in 2016).

Operational investments in the environment area are detailed below:

Waste Management (€/mln)	**Mar 2016**	Mar 2015	Abs. Change	% Change
Composting/Digestors	0.3	0.3	+0.0	+0.0%
Landfills	3.5	1.0	+2.5	+250.0%
WTE	0.6	1.3	-0.7	-53.8%
RS Plants	0.3	0.4	-0.1	-25.0%
Ecological areas and gathering equipment	1.2	1.8	-0.6	-33.3%
Transshipment, selection and other plants	0.6	0.5	+0.1	+20.0%
Total Waste Management Gross	**6.3**	5.3	+1.0	+18.9%
Capital contributions	0.0	0.1	-0.1	-100.0%
Total Waste Management Net	**6.3**	5.2	+1.1	+21.2%

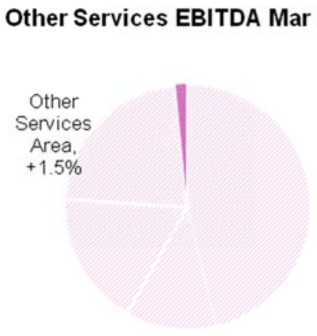
1.02.05 OTHER SERVICES

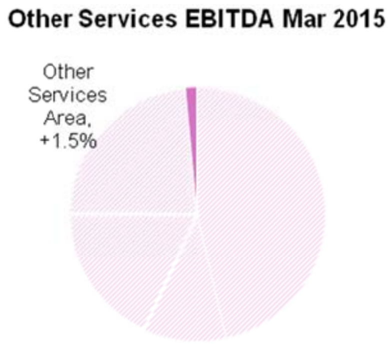
Other Services: slight margin increase

Other Services refers to the minor services delivered by the Group, such as public lighting, telecommunications and cemetery services.

In the first quarter of 2016, the Other Services area displayed a slight increase (4.5%) as compared to the previous year: the EBITDA increased from 4.1 million Euros in the first quarter of 2015 to 4.2 million Euros in the same period of 2016.

Contribution to total marginality





EBITDA for Other Services: slightly on the rise, up 0.1 million Euros

EBITDA variations are detailed below:

(€/mln)	Mar 2016	Mar 2015	Abs. Change	% Change
Area EBITDA	**4.2**	**4.1**	**+0.1**	**+4.5%**
Group EBITDA	**278.4**	277.2	+1.2	+0.4%
Percentage weight	1.5%	1.5%	+0.0 p.p.	

Below are the main indicators for public lighting:

Quantative data	Mar 2016	Mar 2015	Abs. change	% Change
Public lighting				
Lighting points (thousands)	**525.4**	520.4	+5.0	+1.0%
Municipalities served	**151.0**	157.0	(6.0)	(3.8%)

Lighting points number 525.4 thousand

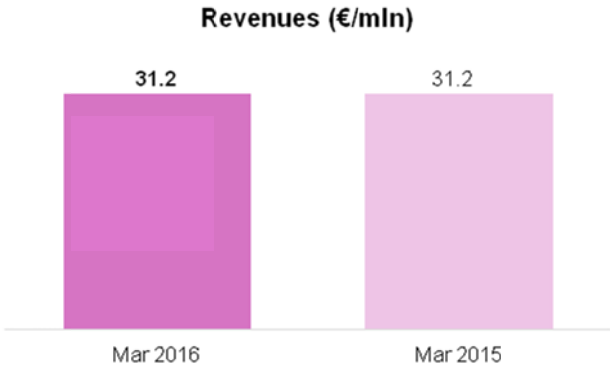
The quantitative public lighting data show an increase in light points in the amount of 5,0000 as well as the loss of 6 municipalities. As to light point management, compared to March 2015, approximately 19,000 light points were acquired in the first quarter of 2016. Approximately 30% of these were in Lazio, in the municipalities of Ferentino, San Cesareo and Cave and approximately 17% in a number of towns in Lombardy and Piedmont, whereas the rest were in areas handled by AcegasApsAmga. The above acquisitions have fully offset the decrease in municipalities.

Other Services: revenues in line

Income statement (€/mln)	**Mar 2016**	% Inc.	**Mar 2015**	% Inc.	Abs. change	% Change
Revenues	**31.2**		31.2		+0.0	+0.0%
Operating costs	**(22.5)**	-72.2%	(22.7)	-72.7%	-0.2	-0.9%
Personnel costs	**(4.8)**	-15.3%	(4.7)	-15.0%	+0.1	+2.1%
Capitalised costs	**0.4**	1.1%	0.2	0.8%	+0.2	+82.7%
EBITDA	**4.2**	13.6%	4.1	13.0%	+0.1	+4.5%

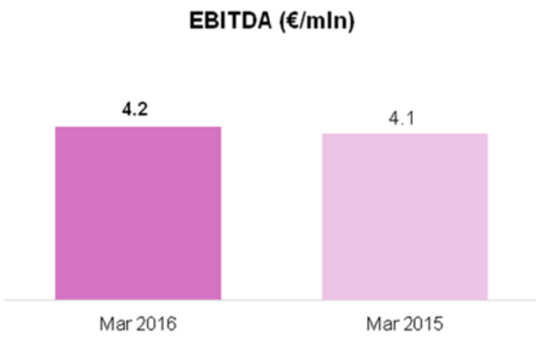
Revenues for Other Services equalling 31.2 million Euros

The area revenues are in line with the previous year, despite the late 2015 sale of the funeral service firm Trieste Onoranze e Trasporti Funebri owned by AcegasApsAmga. Aside from this change, Other Services recorded a 0.4 million Euro increase, on account of its positive performances in public lighting tenders, and of the higher revenues in telecommunications ensuing from an increased delivery of services.



EBITDA grows by 0.1 million Euros

The EBITDA rose by 0.1 million Euros; net of the aforesaid 2015 sale of the company owned by AcegasApsAmga, it recorded a 0.2 million Euro increase as compared to the first quarter of 2015. This trend is mostly connected with the positive performance of the public lighting business, especially in Emilia-Romagna, which recorded a 0.5 million Euro increase in the first quarter of 2016 as compared to the previous period. The growth trend of Hera Luce has fully covered the lower margins of the Northeast perimeter.



2.8 million Euros in net investments

The Other Services investments amount to 2.8 million Euros, a 0.3 million Euro increase as compared to the same period of 2015. As to telecommunications, 2.4 million Euros have been invested in networking and in TLC and IDC (Internet Data Center) services.

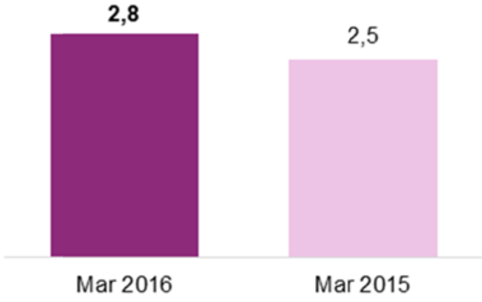
Net investments come to € 2.8 million

Investments in the other services area amounted to € 2.8 million, rising by € 0.3 million over the same period in 2015.

In telecommunications, € 2.4 million of investments went towards the network and Tlc and Idc (Internet Data Center) services.

In the public lighting service, € 0.4 million in investments covered the maintenance, upgrading and modernization of the lighting systems.

Investments in the other services (€ mln)



The operational investments in the Other Services are detailed below:

Other Services (€/mln)	Mar 2016	Mar 2015	Abs. change	% Change
TLC	2.4	1.8	+0.6	+33.3%
Public Lighting and Street Lights	0.4	0.7	-0.3	-42.9%
Total Other Services Gross	**2.8**	2.5	+0.3	+12.0%
Capital contributions	0.0	0.0	+0.0	+0.0%
Total Other Services Net	**2.8**	2.5	+0.3	+12.0%

1.03 STOCK EXCHANGE PERFORMANCE AND INVESTOR RELATIONS

Equity markets were characterized by instability in early 2016. Investors showed an increased aversion to risk, due to growing concerns over the actual health of the Chinese economy, over raw material price drops and over potential interest rate rises by the Federal Reserve. Among the stock lists of the Western countries, Italy recorded the worst performance, being more exposed to the banking sector. The latter has been penalised by the bail-in regulatory enforcement, as well as by concerns about the high amount of non-performing loans to total assets. Only in the second half of the quarter did stock prices show a partial recovery, driven by the accommodating monetary policy measures restated by central banks in the March meetings.

+7.5% Hera share upturn in the first quarter of 2016. Hera overperforms market and reference sector

In this setting, the Hera share largely outperformed the Italian stock market and its peer industry index, with a very divergent trend in the first weeks of the year, thanks to the presentation of the new Strategic Business Plan, which was fully appreciated by the financial community. As at 31/03/2016, the official share price reached € 2.626 increasing by 7.5% since the beginning of the year.

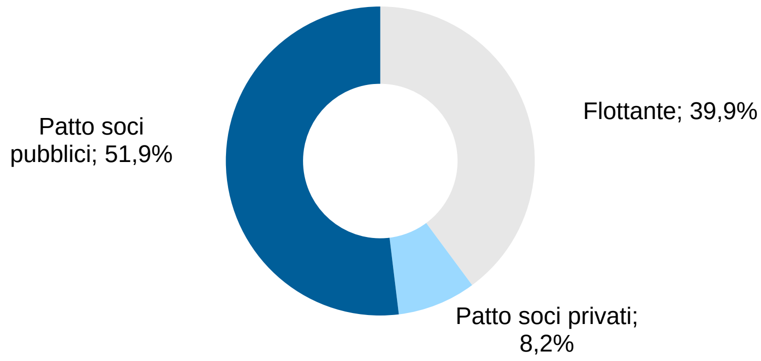
+186.3% ***total shareholders' return*** **from IPO**

The share price rise and the steady distribution of dividends since its listing has brought the total shareholders' return to settle at + 186.3% at the end of the quarter. Hera Group's market capitalization amounted to 3.9 billion Euros at the end of the same period; still the highest in its peer group, it also excelled securities listed in the FTSE MIB index, the main Italian stock exchange index.

2.83 € consensus target has been revised upwards since the publication of FY results

The number of financial analysts covering the share remains unchanged: Banca Akros, Banca IMI, Equita, Fidentiis, Goldman Sachs, ICBPI, Intermonte, Kepler Cheuvreux, MainFirst and Mediobanca. At the end of the first quarter of 2016, approvals were still predominant, with a marked majority of "Buy / Outperform" recommendations; the consensus target price has been revised upwards - from € 2.77 to € 2.83 - since the publication of the yearly results.

Shareholder composition as at 31/03/2016



51.9%
Public shareholders' agreement share capital

As of March 31, the company structure shows its standard balance, with 51.9% of shares held by 118 public shareholders in the reference territories, regulated by a Shareholders' Agreement, signed on June 26, 2015 and effective for three years. Since 2006, Hera has adopted a plan to repurchase its own shares; this was extended for a further 18 months by the Shareholders' meeting on 28 April 2016, with a maximum total amount of 180 million Euros. This plan aims to fund the integration of smaller companies and to standardise any atypical price fluctuations against the main Italian peer companies. At the end of the first quarter, Hera held 16.6 million shares in its portfolio.

Market contact as *intangible asset*

After the release of the new 2015-2019 Strategic Business Plan, the Hera top management took part in a road show in the major European and North American financial centers to present investors the growth targets set by the Group, as well as the strategy needed to achieve such targets. This intense activity harvested much interest from institutional investors and was rewarded by the share performance in the reporting period. The Group's intense commitment to interacting with investors has helped consolidate its reputation in the markets and is an intangible asset, to the benefit of the share and of Hera stakeholders.

1.04 THE REFERENCE SCENARIO AND STRATEGIC APPROACH OF THE GROUP

The reference scenario and the context as regards competition

Italy's primary public utility service sector is fragmented still today into a large number of local public enterprises. At present, with the expiry of grants for gas distribution, waste gathering and street sweeping services and the introduction of new grants defined on a larger geographical basis (province-wide), a period of competitive tenders is approaching that will cause serious difficulties for many small enterprises and lead to a reduction in the number of operators (of which there are currently over 200 in the gas distribution sector, and over 450 in waste gathering and sweeping services). A very high number of small-medium sized enterprises also currently operate in the free market waste treatment and energy sales services sectors. They find themselves operating in rather difficult conditions due to a progressive rise in competition coming from larger-sized companies.

The Hera Group model on the market

In this context, the Hera Group is able to propose a model for development that can respond to upcoming changes thanks to its ability to make the most of scale economies, and bring together and develop the excellent proficiency that characterize local enterprises. The "Hera model" was in fact conceived as a widely diversified ownership framework, regulated by simple governance, which provided the basis for an industrial and managerial approach to transforming a multitude of "local" enterprises into a single, integrated system, aimed at reaching a higher degree of efficiency and service quality. The results were pursued with a view to economic, social and environmental sustainability, by sharing the economies and synergies derived from a close relationship with the localities in question and an active collaboration between multiple protagonists, as stated in the Group's mission.

A reproducible model underlies competitiveness

This business model has proven its efficiency in both internal and external growth, constantly attracting other municipalised multi-utility enterprises from bordering geographical areas. In less than 12 years, following the original model, 22 enterprises from 4 regions in Central North-Eastern Italy have in fact been integrated, allowing the Group to reach outstanding national market positions, quadrupling its EBITDA and, more generally, improving all KPI in socio-environmental sustainability. The model currently adopted by the Group can be seen as a point of reference for the transformation of the sector, an issue which is currently on the Government's agenda and under examination by the regulated services Authority.

A balanced development of the activity portfolio

The Group's growth strategy, pursued with continuity over the years, has maintained a perfect balance between regulated and free market activities in its core businesses. Growth in regulated activities has been achieved both through organic development and by improving the efficiency of the municipalised enterprises acquired while integrating them. An expanded customer base and plant system has been achieved by gaining new market shares and acquiring "mono-business" companies operating in these sectors. This balanced portfolio mix has ensured an effective expansion of the Group as well as a high degree of risk diversification.

A "risk adverse" strategy

Exposure to market risks and competition has been contained through a carefully considered management of the Group's risk profile and return on activities. This is what lay behind the choice to expand activities in waste treatment, which are inadequate across the entire country and necessary for the sustainability of the services offered, and to focus on commercial development. A further decision in line with this risk adverse strategy concerns gas procurement with short-term contracts, instead of turning to long-term supply contracts, which provide more guarantees but are also more exposed to the risks of demand and price fluctuation.

Future prospects in the sector

In Italy, the sector's evolution towards a less fragmentary structure is now supported by a legislative framework that encourages operators to consolidate. In addition to tenders issued for some services whose grants have already expired, this will come about thanks to the introduction of new laws and a reformulation of currently existing ones (i.e. decrees intended to implement the "Madia" law) concerning local public services and public administration, aimed at providing incentives for rationalising or transferring shares held in primary public utility services of general economic interest. This new legislation represents a break with the past, introducing a series of measures whose goal is to encourage smaller municipalised enterprises to consolidate, an objective shared by the recent revision of the tariff systems established by the Authority for Electricity, Gas and the Water Cycle (hereinafter AEEGSI), providing incentives for enterprises that strive towards a higher level of efficiency.

The new business plan to 2019

This complex context defines the reference scenario for the new business plan to 2019, presented on 11 January 2016, which calls for continued growth in EBITDA, reaching over 1 billion Euros by the end of the period in question. This goal will be sustained by the Group's time-tested development model, which is propelled by two complementary "motors": organic and external growth.

Organic growth

The first motor, i.e. organic growth, will pursue a form of management geared towards searching for efficiencies, developing the plant base and the customer portfolio, and extracting synergies from companies acquired in recent years. These levers will be able to more than compensate for both the impact of tariff revisions in regulated services as nationally defined by the AEEGSI, and the reduction in incentives for energy management from renewable sources.

The second motor of growth, involving external lines, will make the most of tenders awarded for gas distribution in localities served (based on the level of efficiency already reached and a presence in the areas subject to tender), as well as the integration of four multi-utilities in regions in which the Group currently operates. The use of this second motor is expected to contribute to a rise in EBITDA, as was the case in the past. With its new business plan, the Group intends to support the development of this sector in Italy, counting on the knowhow is has accumulated in the past with M&As, and relying on its own model of governance, open to the entry of new municipalised multi-utilities and their public shareholders.

Building on the previous business plan, four strategic levers will be activated as regards the company's organisation and each of its businesses: growth, efficiency, innovation and excellence. This orientation, which has already proven its validity over the last two years, is at the root of all main strategic projects envisaged for the next four years.

Growth

Growth will be fostered by investments expected to total more than 2.2 billion Euros, accumulated over the duration of the plan. 78% of these investments will be directed towards regulated assets and maintaining solid asset ratios thanks to the full coverage guaranteed by cash flow generation coming from operational activities. At the same time, the Group's current presence in free markets will also be reinforced, in particular by developing the number of customers in energy sales activities and boosting activities in waste treatment, by way of an increasingly eco-compatible management.

Objectives for growth in the environment sector are expected to remain in line with market trends seen in the recent past, with a contribution coming from the acquisitions finalised in late 2015 of Geo Nova and Waste Recycling, confirming the rationale of regional expansion and the preference given to plants that are complementary to those currently possessed by the Group.

In the energy sector, Hera can rely on a customer base with approximately 2.2 million contracts, and aims at a greater presence in the retail sector, clearly marked by a more stable and resilient consumption. The objective set for the duration of the Plan is to increase electricity customers, prolonging the trend seen in recent years and continuing to benefit from flexible energy commodity procurement sources. The expansion of this market will be accompanied by continued improvement in service quality, development of new commercial offers and cross selling opportunities for current customers. In this business area, Hera will attempt to contain the effects of the increase in competition, making the most of its present critical mass and market position.

Efficiency

The Group will continue to dedicate close attention to efficiency and synergy extraction, with a view to not only creating value for its shareholders, but also protecting its own competitiveness on the market. The Group's multi-utility model, which already guarantees a `cost to serve' among the best in the sector, represents a competitive advantage in the search for efficiency, because it allows new organisation and process solutions to increase their benefits, with the possibility of specific applications in the various businesses and an improvement in customer satisfaction.

Innovation

Impetus towards growth will also come from innovation. As confirmation of the importance that Hera gives to this strategic imperative, an Innovation Management branch was created in 2014, specifically intended to act as a receptacle for ideas and new technologies and to propel their implementation across the Group. The Business Plan includes 51 innovative projects that will not only contribute to developing new lines of revenue, but will also be responsible for about 10% of the efficiencies foreseen by the Plan.

Excellence

Hera intends to confirm its customary strategic framework, which is distinguished by its excellence, surpassing the quality and efficiency standards the Authority has established for regulated services, consolidating its leadership in environmental services and maintaining a level of customer satisfaction among the highest in the sector, all within the context of sustainable growth and continuous development of intangible assets.

These objectives are matched by a dividend policy of 9 cents per share. This policy can be considered feasible thanks among other things to the expected cash flow that, in addition to guaranteeing full coverage of the investment plan, confirms the Group's solid financial structure.

1.05 PERSONNEL STRUCTURE

As of March 2016, Hera Group's permanent employees are 8,432 (consolidated companies), with the following distribution by role: managers (151), middle managers (530), clerks (4,482), workers (3,269). This structure has been determined by the following dynamic: 68 new recruits and -62 exits.

	31 Mar 2016	31 Dec 2015	Change
Executive Managers	151	146	5
Middle Managers	530	526	4
Clerks	4,482	4,449	33
Workers	3,269	3,305	-36
Total	**8,432**	**8,426**	**6**

Detailed below are the period dynamics, which essentially result from:

Resources as of 31st December 2015	8,426
Entries	68
Leaving	-62
Net flows	6
Resources as of 31st March 2016	**8,432**

- fixed-term contracts turned into open-ended contracts
- recruitment of professional profiles that were not present in the Group
- entry of 5 executives within the Waste Recycling delta perimeter

The reduced number of workers is offset by the entry of equivalent fixed-term profiles, who were gradually introduced into open-ended contract consolidation schemes.

CHAPTER 2

CONSOLIDATED FINANCIAL STATEMENTS OF THE HERA GROUP

2.01 FINANCIAL STATEMENTS

2.01.01 Income Statement

(€/mln)	31 March 2016 *(3 months)*	31 March 2015 *(3 months)*	31 December 2015 *(12 months)*
Revenues	1,235	1,312	4,487
Other operating revenues	74	71	331
Use of raw materials and consumables	(609)	(702)	(2,257)
Service costs	(282)	(267)	(1,132)
Personnel costs	(133)	(131)	(511)
Amortisation, depreciation,provisions	(107)	(107)	(442)
Other operating costs	(12)	(10)	(62)
Capitalised costs	5	4	28
Operating profit	**171**	**170**	**442**
Portion of profits (loss) pertaining to joint ventures and as:	5	5	12
Financial income	29	30	81
Financial expense	(60)	(65)	(227)
Total financial operations	**(26)**	**(30)**	**(134)**
Pre-tax profit	**145**	**140**	**308**
Taxes for the period	(48)	(48)	(114)
Net profit for the period	**97**	**92**	**194**
Attributable to:			
Shareholders of the Parent Company	91	86	180
Non-controlling interests	6	6	14
Earnings per share			
basic	**0.062**	**0.056**	**0.123**
diluted	**0.062**	**0.056**	**0.123**

2.01.02 Statement financial position

(€/mln)	31 March 2016	31 December 2015
ASSETS		
Non-current assets		
Property,plant and equipment	2,010	2,028
Intangible assets	2,902	2,896
Property investments	4	4
Goodwill	378	378
Equity investments	162	157
Financial assets	127	125
Deferred tax assets	77	73
Financial instruments - derivatives	124	108
Total non-current financial assets	**5,784**	**5,769**
Current assets		
Inventories	66	116
Trade receivables	1,683	1,533
Current financial assets	35	35
Current tax assets	29	29
Other current assets	254	226
Financial instruments - derivatives	31	7
Cash and cash equivalents	385	541
Total current assets	**2,483**	**2,487**
TOTAL ASSETS	**8,267**	**8,256**

cont.

(€/mln)	31-mar-16	31-dic-15
SHAREHOLDERS' EQUITY AND LIABILITIES		
Share capital and reserves		
Share capital	1,473	1,474
Reserves	882	704
Profit (loss) for the period	91	180
Group equity	**2,446**	**2,358**
Non-controlling interests	151	145
Total equity	**2,597**	**2,503**
Non-current liabilities		
Non-current financial liabilities	2,948	2,944
Post-employment benefits	147	148
Provisions for risks and charges	366	365
Deferrred tax liabilities	23	24
Financial instruments - derivatives	49	34
Total non-current liabilities	**3,533**	**3,515**
Current liabilities		
Current financial liabilities	178	484
Trade payables	1,080	1,121
Current tax liabilities	79	26
Other current liabilities	758	585
Financial instruments - derivatives	42	22
Total current liabilities	**2,137**	**2,238**
TOTAL LIABILITIES	**5,670**	**5,753**
TOTAL EQUITY AND LIABILITIES	**8,267**	**8,256**

2.01.03 Cash flow statement

(€/mln)	31-mar-16	31-mar-15
Pre-tax profit	**145**	**140**
Adjustment to reconciliate net profit with cash flow from operating activities:		
Amortisation and impairment of tangible assets	39	40
Amortisation and impairment of intangible assets	45	43
Allocation to provisions	23	25
Effect from valuation with the equity method	(5)	(5)
Financial income / (expense)	31	35
(Capital gain) / loss and other non monetary elements (valuations commodities derivatives included)	(5)	-
Change in provisions for risks and charges	(8)	(5)
Change in provisions for employee benefits	(2)	(2)
Total cash flow before change in working capital	**263**	**271**
(Increase) / Decrease inventory	50	60
(Increase) / Decrease trade receivables	(169)	(347)
(Increase) / Decrease trade payables	(41)	(17)
(Increase) / Decrease other current asset/liabilities	149	237
Change in working capital	**(11)**	**(67)**
Interest income and other financial income collected	5	5
Interest expense and other financial charges paid	(52)	(57)
Taxes paid	-	(1)
Cash generated from operating activity (a)	**205**	**151**
Investment in tangible assets	(21)	(16)
Investment in intangible assets	(52)	(48)
Selling price of tangible and intangible assets (including lease-back transactions)	1	1
(Increase) / Decrease other investment activities	(1)	13
Cash generated / (absorbed) by investment activity (b)	**(73)**	**(50)**
Refund and other change in financial debt	(283)	(263)
Fees paid for financial leasing	(1)	(1)
Acquisition of share in consolidated companies	-	(27)
Dividends distributed to Hera shareholders	(1)	(3)
Change treasury shares	(3)	7
Cash generated / (absorbed) by financing activity (b)	**(288)**	**(287)**
Effect of change in exchange rate on cash (d)	**-**	**-**
Increase / (Decrease) Cash (a+b+c+d)	**(156)**	**(186)**
Cash and cash equivalents at the begining of the period	541	834
Cash and cash equivalents at the end of the period	385	648

2.01.04 Statement of change in equity

(€/mln)	Share capital	Reserves	Reserves for derivatives instruments recognized at fair value	Reserve actuarial income/(losses) post-employment benefits	Profit (loss) for the period	Equity	Non-controlling interests	Total
Balance at 31 December 2014	**1,470**	**707**	**(1)**	**(30)**	**165**	**2,311**	**148**	**2,459**
Profit for the period					86	**86**	6	**92**
Change treasury shares	3	4				**7**		**7**
changes in equity interests		(21)				**(21)**	(6)	**(27)**
Allocation of 2014 profit :								
- allocation to other reserves		135			(135)	**-**		**-**
- allocation to retained earnings		30			(30)	**-**		**-**
Balance at 31 March 2015	**1,473**	**855**	**(1)**	**(30)**	**86**	**2,383**	**148**	**2,531**
Balance at 31 December 2015	**1,474**	**730**	**(1)**	**(25)**	**180**	**2,358**	**145**	**2,503**
Profit for the period					91	**91**	6	**97**
Change treasury shares	(1)	(2)				**(3)**		**(3)**
Allocation of 2015 profit :								
- allocation to other reserves		172			(172)	**-**		**-**
- allocation to retained earnings		8			(8)	**-**		**-**
Balance at 31 March 2016	**1,473**	**908**	**(1)**	**(25)**	**91**	**2,446**	**151**	**2,597**

2.02 EXPLANATORY NOTES

Accounting policies and significant accounting estimates

With reference to legislative decree 25/2016, an implementation of Directive 2013/50/EU (Transparency Directive), the Hera Group, pending application of the Consob's regulatory jurisdiction, has voluntarily decided to publish the consolidated three-month report for the period ended 31 March 2016, interim financial statements, as in the past.
The Group further specifies that this decision may be retracted on the basis of changes in regulations, and therefore must not be understood as binding in the future. When the framework in question reaches completion, the Group intends to define a policy for managing financial information that will be adopted according to Consob recommendations.

This interim report was not prepared in accordance with IAS 34 - Interim Financial Reporting. The accounting standards adopted for this report are however the same as those used to prepare the consolidated financial statements for the year ended 31 December 2015, to which reference is made for further information, in addition to those applicable as of 1 January 2016.

The preparation of this interim report requires estimates and assumptions to be made concerning the value of revenues, costs, assets and liabilities and disclosures relating to contingent assets and liabilities at the reporting date. If, in future, such estimates and assumptions, which are based on the management's best judgment, should differ from actual events, they will be adjusted accordingly in order to give a true representation of the results of operations.

It should also be noted that some measurement methods, particularly the more complex ones, such as detecting any impairment of non-current assets, are generally entirely applied only during the preparation of the annual financial statements, unless there are indications of impairment which require an immediate impairment test.

Income taxes are recognised based on the best estimate of the weighted average rate for the entire financial year.

The disclosures contained in this interim report are comparable with those for prior periods.

Financial statements

The format used for the financial statements is the same as that used for the consolidated financial statements at 31 December 2015. Specifically, the income statement is presented in vertical format, with the individual items analysed by nature. This presentation, also used by the company's major competitors, is considered consistent with international practice and is the one that best represents the company's performance.

The statement of financial position shows the distinction between current and non-current assets and liabilities.

The overall income statement is not presented as part of this interim report, due to the non-relevance of its components.

The cash flows statement has been prepared using the indirect method, in accordance with IAS 7.

The financial statements contained in this interim report are expressed in millions of Euros, unless otherwise indicated.

Scope of consolidation

This interim report includes the financial statements of the Parent Company, Hera Spa, and its subsidiaries. Control exists when the parent company has the power to influence the subsidiary's variable returns or, when, through exercise of its currently valid rights it has the ability to direct the subsidiary's significant activities. Subsidiary companies which are not significant in size and those in which voting rights are subject to severe long-term restrictions are excluded from the scope of line-by-line consolidation and are carried at cost.

Investments in joint ventures, which the Group controls jointly with other companies, are accounted for with the equity method. Also companies on which a significant influence is exercised are accounted for with the equity method. Investments held for negligible amounts are recognized at cost.

Companies held for sale are excluded from consolidation and measured at their fair value, with the exception of cases in which fair value cannot be determined accurately, when they are recognized at cost. These investments are recorded as separate items.

No changes in the scope of consolidation have come about in the first three months of 2016 with respect to the financial statements for the year ended 31 December 2015.

The list of companies included in the scope of consolidation is available at the end of these explanatory notes.

Other information

These interim financial statements for the three months ended on 31 March 2016 were prepared by the Board of Directors and approved by it during the meeting held on 11 May 2016.

2.03 NET BORROWINGS

(€/mln)		31 Mar 16	31 Dec 15
a	**Cash and cash equivalents**	**385**	**541**
b	**Other current financial receivables**	**35**	**35**
	Current bank debt	(80)	(129)
	Current bank debt	(89)	(285)
	Other current financial liabilities	(7)	(68)
	Finance lease payments maturing within 12 months	(2)	(2)
c	**Current financial debt**	**(178)**	**(484)**
d=a+b+c	**Net current financial debt**	**242**	**92**
	Non-current bank debt and bonds issued	(2,850)	(2,845)
	Other non-current financial liabilities	(6)	(6)
	Finance lease payments maturing after 12 months	(17)	(18)
e	**Non-current financial debt**	**(2,873)**	**(2,869)**
f=d+e	**Net borrowings - Consob communication n° 15519 of 28/07/2006**	**(2,631)**	**(2,777)**
g	**Non-current financial receivables**	**127**	**125**
h=f+g	**Net financial debt**	**(2,504)**	**(2,652)**

2.04 EQUITY INVESTMENTS

Subsidiaries

Name	Registered office	Share capital	% held direct	% held indirect	Total interest
Parent Company: Hera Spa	**Bologna**	**1,489,538,745**			
Acantho Spa	Imola (BO)	23,573,079	77.36%		77.36%
AcegasApsAmga Spa	Trieste	284,677,324	100.00%		100.00%
AcegasAps Service Srl	Padova	180,000		100.00%	100.00%
Amga Calore & Impianti Srl	Udine	119,000		100.00%	100.00%
Amga Energia & Servizi Srl	Udine	600,000		100.00%	100.00%
ASA Scpa	Castelmaggiore (BO)	1,820,000		38.25%	38.25%
Biogas 2015 Srl	Bologna	1,000,000		75.00%	75.00%
Black Sea Technology Company AD	Varna (Bulgaria)	15.905.235 Lev		99.97%	99.97%
Black Sea Gas Company o.o.d	Varna (Bulgaria)	5.000 Lev		99.97%	99.97%
Esil Scarl	Bologna	10,000		100.00%	100.00%
Feronia Srl	Finale Emilia (MO)	2,430,000		52.50%	52.50%
Frullo Energia Ambiente Srl	Bologna	17,139,100		38.25%	38.25%
Fucino Gas Srl	Luco dei Marsi (AQ)	10,000		100.00%	100.00%
HeraAmbiente Spa	Bologna	271,648,000	75.00%		75.00%
Herambiente Servizi Industriali Srl	Bologna	1,748,472		75.00%	75.00%
Hera Comm Srl	Imola (BO)	53,536,987	100.00%		100.00%
Hera Comm Marche Srl	Urbino (PU)	1,977,332		72.01%	72.01%
Hera Luce Srl	San Mauro Pascoli (FC)	1,000,000	100.00%		100.00%
Hera Servizi Energia Srl	Forlì	1,110,430		57.89%	57.89%
Hera Trading Srl	Trieste	22,600,000	100.00%		100.00%
HestAmbiente Srl	Trieste	1,010,000		82.50%	82.50%
Insigna Srl	Padova	10,000		100.00%	100.00%
Marche Multiservizi Spa	Pesaro	13,484,242	49.59%		49.59%
Medea Spa	Sassari	4,500,000	100.00%		100.00%
New eco Srl	Santa Croce sull'Arno (PI)	100,000		75.00%	75.00%
Rew Trasporti Srl	Santa Croce sull'Arno (PI)	99,000		75.00%	75.00%
Rila Gas EAD	Sofia (Bulgaria)	32.891.000 Lev		100.00%	100.00%
SiGas d.o.o	Pozega (Serbia)	162.260.058 Rsd		95.78%	95.78%
Sinergie Spa	Padova	11,168,284		100.00%	100.00%
Sviluppo Ambiente Toscana Srl	Bologna	10,000	95.00%	3.75%	98.75%
Tri-Generazione Srl	Padova	100,000		70.00%	70.00%
Uniflotte Srl	Bologna	2,254,177	97.00%		97.00%
Waste Recycling Spa	Santa Croce sull'Arno (PI)	1,100,000		75.00%	75.00%

Jointly Controlled Companies

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

Associated Companies

Name	Registered office	Share capital	% held direct	% held indirect	Total interest
Aimag Spa*	Mirandola (MO)	78,027,681	25.00%		25.00%
Ghirlandina Solare Srl	Concordia Sulla Secchia (MO)	60,000	33.00%		33.00%
Q.Thermo Srl	Firenze	10,000		39.50%	39.50%
Set Spa	Milano	120,000	39.00%		39.00%
So.Sel Spa	Modena	240,240		26.00%	26.00%
Sgr Servizi Spa	Rimini	5,982,262		29.61%	29.61%
Tamarete Energia Srl	Ortona (CH)	3,600,000	40.00%		40.00%

* The Company's share capital is composed of € 67.577.681 of ordinary shares and € 10.450.000 of related shares

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