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In a challenging 2014, the increasing EBITDA acceleration proves the effectiveness of our strategy even looking forward



Dear shareholders,

2014 nine-month results significantly prove how the difficulties of the outside environment can be effectively tackled thanks to a well-diversified business portfolio, strong marketing and throughout integration of acquired companies, driven by the quest of ever greater efficiencies.

In 2014 we had to face a number of pitfalls; very mild weather in the first four months and longstanding weakness of the Italian economy have slowed down the dynamics of volumes both in gas and electricity; the decrease in price of raw materials has represented a further component for revenue decline. However, thanks to our well-balanced structure, we could benefit from positive contribution of regulated businesses and success of the commercial campaign in liberalised activities. The 2014-2018 Business Plan that we have presented on 1st October indicates a substantial continuity with such a consolidated strategy, concerning the levers for future growth.

As you will find in more detail on page 3, in the five year period we will continue to fuel organic growth through a capex plan of 2.1 billion euro, while pursuing further expansion through M&A. In the Plan, roughly half – more precisely 48% - of the

overall EBITDA growth to 2018 is expected to derive from M&A, while another 10% can be achieved through positive outcome from next tenders for gas concessions.

Presently attention on opportunities that Hera faces is very high, provided that Government and Public Institutions push for a greater sector concentration and considered our natural aggregator role; the market recognizes that we have a proven track record in selecting acquisitions and, later on, in integrating them. Even though the features of such a process have not been completely shaped so far, the rules at which Hera means to play the game are on the contrary crystal clear; tightening industrial rationale, discipline in evaluation criteria, strong concentration on immediate extraction of synergies.

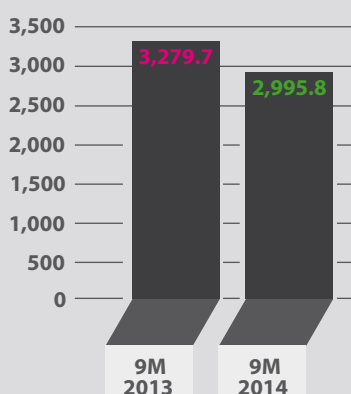
Such consistency with past stance will allow our shareholders to benefit from the growth

opportunities that the Italian market presents with no change in their investment risk profile. We believe that this was the most important commitment to make, as things stand at the moment, and from this perspective we have set new Plan's targets.

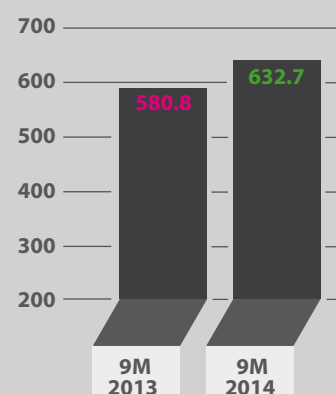
Tomaso Tommasi di Vignano

THE GROWTH RATE OF CONSOLIDATED EBITDA DURING 2014 PRESENTS CONTINUOUS ACCELERATION, WHEN COMPARING IT TO THE SAME PERIOD OF FY2013: +1.7% IN Q1; +4.4% IN H1; +8.9% IN THE FIRST NINE MONTHS.

Revenues m€



EBITDA m€



Hera's growth strategy, which combines organic growth, synergy extraction and M&A, confirms its effectiveness also when looking at 2014 nine-month results. It moreover represents the development path to which we will stick up in executing the new 2014-2018 Business Plan.



Chicago at dawn – a destination of the Business Plan road show



2014 NINE-MONTH RESULTS

(figures in million euro)

REVENUES

2,995.8 (-8.7%)

EBITDA

632.7 (+8.9%)

EBIT

312.9 (+11.1%)

INVESTMENTS

232.1 (100% operating)

NET FINANCIAL DEBT

2,700.9

Focus on 2014 nine-month results

/// In Q3 2014 the EBITDA growth rate has shown an acceleration compared to the H1 growth rate: in the first nine months EBITDA has achieved an 8.9% increase, vs. a 4.4% increase reported in H1.

/// The substantial increase in EBITDA confirms the positive impact of a tested mix of drivers: strong organic growth, combined with the extraction of synergies from the AcegasApsAmga aggregation, on top of which M&A benefits have to be considered, following to the Amga Udine merger, effective starting from 1st July 2014.

/// All the areas in business portfolio have shown an EBITDA improvement, with Electric Energy (+34.5%) and Water (+12.9%) leading consolidated growth.

In 2014 nine-months Hera Group has achieved a significant increase in EBITDA (+8.9%), in spite of the premises of a very challenging external environment, whose signs are visible in Revenues, which decline by 8.7%. The decrease in the P&L headline reflects the negative impact of four components: 1) fall in gas volumes, as a consequence of unfavourable weather conditions, 2) the value reduction of electricity and gas sales, due to lower price of raw material, 3) the decline in electricity volumes sold driven by the 3.0% decrease in domestic demand and, lastly, 4) lower trading activities.

EBIT improves by 11.1%, after the absorption of a 6.9% increase in Depreciation and Provisions. Financial Operations amount to -102.7 million euro, showing a 1.5 million improvement vs. the same period of 2013. Adjusted pre-tax profit (excluding the impact of "Other non-operating revenues" posted in 9M 2013) amounts to 210.2 million euro, showing a 18.4% rise. Net profit presents a 19.3 million euro decrease, due to other 2013 non-operating revenues (43.7 million) linked to the AcegasAps acquisition and to 2014 non-recurring financial items (2.5 million). Adjusted net profit on the contrary improves by 27.3%, moving from 98.0 million euro in 9M 2013 up to 124.8 million euro.

Group financial strength improves compared to the half-year picture, with a Net Financial Debt amounting to 2.70 billion euro (vs. 2.73 billion as of 30 June 2014); the strong cash flow generation has more than counterbalanced the impact of the debt of Amga Udine, which has been included in the Group scope of consolidation in the third quarter of the current fiscal year.

EBITDA

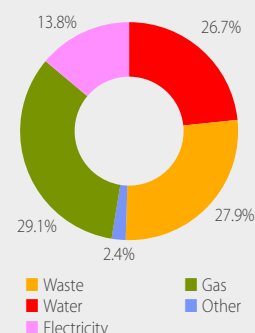
m€	9 M 2013	9 M 2014	Change
Waste	174.4	176.7	+1.3%
Water	149.7	169.0	+12.9%
Gas	174.6	184.1	+5.4%
Electricity	65.0	87.4	+34.5%
Other	17.1	15.5	-9.8%
TOTAL	580.8	632.7	+8.9%

The positive performance of consolidated EBITDA benefits from the substantial contribution of the Electric Energy EBITDA, whose sizeable improvement (+34.5%) derives from better margins in sales activities and higher revenues from the regulated distribution service, despite an almost 20% decline in energy price. The continuous expansion in the customer base (+73,000 over the nine-month period), including the Amga Udine consolidation, has furthermore allowed to mitigate the negative impact of a 3.0% decrease in

domestic demand. Even the Water EBITDA (+12.9%) continues to grow at a higher rate than the Group average one, thanks to the application of the new tariff system set by the AEEGSI (the Italian Regulation Authority) and higher revenues posted according to the application of IFRIC 12. The Gas area, presenting a 14.0% decrease in revenues, as a result of lower volumes sold and lower gas commodity prices, improves by 5.4% at EBITDA level, thanks to the contribution of Efficiency Energy Certificates and to the full

consolidation of Udine and Gorizia territories. Waste EBITDA rises by 1.3%; the 9.9% increase in marketed waste reflects the strong expansion (+20.0%) in market waste, thanks to successful commercial activities in Northern and Central Italy. Higher weight of differentiated collection (above 53%) supported the dynamics of urban waste (+0.9%). Treated waste increased by 7.2%, generating rises in almost every type of plants and leading to a generation recovery from waste that remained stable around 0.75 TWh, despite the maintenance stop at a WTE plant.

9M 2013 EBITDA Breakdown



2014-2018 Business Plan



/// On 1st October Hera has presented the new Plan, which shows a substantial EBITDA cumulated increase over the 2014-2018 period, equal to 201 million euro. Main growth drivers are represented by external growth, though M&A deals (48% of overall growth) as well as by organic growth and synergies (another 42%): gas tenders are expected to contribute to the whole

EBITDA expansion for the remaining 10%. In 2018 regulated business are forecast to weight by 57% on Group EBITDA, which is estimated to reach 1,020 million euro.

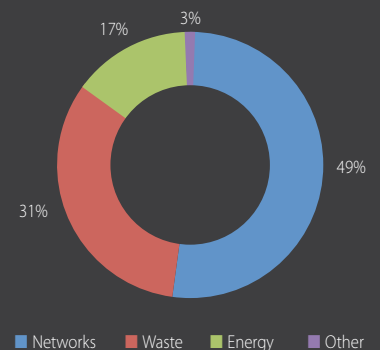
In the 2014-2018 five-year period Hera targets operating investments for an overall amount of 2.09 billion euro, mainly focused (72%) on regulated activities. Capital expenditure will be funded by strong expected cash flow generation.

The Company expects to achieve a Free Cash Flow of 268 million euro in 2018, before M&A and dividend distribution: that will allow to further

increase financial strength, taking the Debt-to-EBITDA ratio from 3.1x in 2013 down to 2.8x in 2018.

In the new Business Plan the commitment to a satisfactory shareholder remuneration continues. The expectation to succeed in increasing earnings per share at a 5% CAGR makes the dividend policy credible. Hera is committed to a dividend per share distribution of at least 9 cents in each fiscal year of the Plan.

EBITDA 2018 TARGET:
1,020 M EURO
Breakdown by business area



NEW BUSINESS PLAN TARGETS

2018 EBITDA 1,020 million euro / 2013 EBITDA*: 810 million euro

2018 Free Cash Flow** 268 million euro

EPS (earnings per share) +5% 2013-2018 CAGR

2014-2018 DPS Floor of 9 euro cents yearly

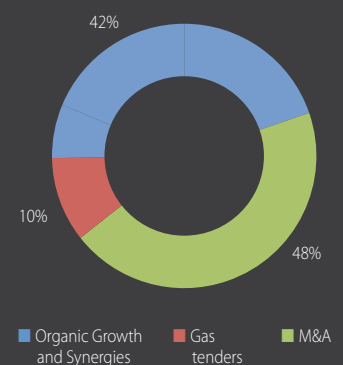
2014-2018 CAPITAL EXPENDITURE 2.1 billion euro

2018 NET FINANCIAL DEBT/EBITDA 2.8x (3.1x in 2013)

*Restated applying IFRS11 criteria in force starting from 1 January 2014

**Before M&A and dividends

2013-2018 EBITDA GROWTH DRIVERS
(210 m euro)



AcegasApsAmga and the Hera's integration model



/// This article stems from the contribution of Roberto Gasparetto, presently general manager of AcegasApsAmga; his track record includes the integration of META Modena, acquired in 2005. That merger represented the start of a unique integration model, which has substantially helped the success of the Hera's growth process through M&A.

Key-steps of the integration into Hera present certain well-defined recurrent objectives: delete the previous legal entity, make the managing processes homogeneous and operate an effective know-how transfer from Hera to the newly-acquired company. The model moreover involves the unification of procurement processes, IT, billing and accounting systems, besides internal and external communications. The operating integration model has been monitored and fine-tuned over time, with the aim of making it flexible to current

situations and ready for matching the needs of changes underway. At the heart of the model Hera has always placed Quality and Safety, by structuring standards and promptly unifying management systems; that has allowed to guarantee both safety to the staff in the operations and the highest quality to the service provided to customers. The integration model leverages on a key success factor: the acquired companies have always welcomed it in a very constructive way, thanks to the features it presents, thus favouring its prompt

application. Even in the AcegasApsAmga case, the integration is going ahead more quickly than expected, thanks to an environment characterised by shared objectives and real cooperation. Hera has always been very careful to recognise and value excellence in the acquired companies, as proven by the case of the Amga Udine management model of networks; following to the merger, that model has been adopted as a best practice benchmark across all the operations in the new AcegasApsAmga group.





In depth in AcegasApsAmga integration projects

/// The projects through which Hera is integrating AcegasApsAmga set an effective example of how the model presented on page 3 is put into practice.

The AcegasApsAmga integration process in 2015 is organised around **50 projects**, whose targets are shared by senior and middle management. Synergy extraction comes through a series of

optimisation initiatives that involve **all business areas**, in line with the Group multi-utility approach, besides **staff activities**. Each area presents objectives that are clearly quantified in terms of **innovation, growth,**

efficiency and excellence. The latest aspect is taken into special consideration – and not just from a qualitative viewpoint, as proven by the Direction Project coordinating the excellence percentage in each initiative.

GAS 	WASTE 	ELECTRIC ENERGY 	WATER 
Smart Grid management	Waste Work force management	Extension of remote control and management system to the Triveneto area	Water Smart Grid- reduction of physical leakage and non-billed water
Work force management of Gas Networks	Management of waste and service tax (TARI)	Electric Energy and Public Lighting Smart Grid	Water network Work force management
Management of debt collection	Urban waste service development	Work force management of Electric Energy Networks and Public Lighting	Control of Water investment targets and EBITDA
Tenders' supervision	Control of Waste investment targets and EBITDA	Complete integration of Electric Energy Distribution and Public Lighting	Upgrade to best standards of Servola (Trieste) purifier
Amga and Isontina Reti Gas - Complete integration of gas distribution	Control of investment target and EBITDA for External Services	Control of Electricity and PL investment targets and EBITDA	
Control of Gas investment targets and EBITDA	Development of differentiated collection	Energy Management - 50001 objective	
Gas distribution in Bulgaria - optimisation and synergy extraction	Ponte San Nicolò landfill maintenance		
Optimisation of Gas Technical and Commercial Parameters			

On top of a vertical breakdown by business area, the model also involves a high number of crosscutting projects, which imply:

1. **Implementation of system and infrastructure integration**
2. **E Management, as a direction meta-project.**

PROJECTS ACROSS THE BOARD

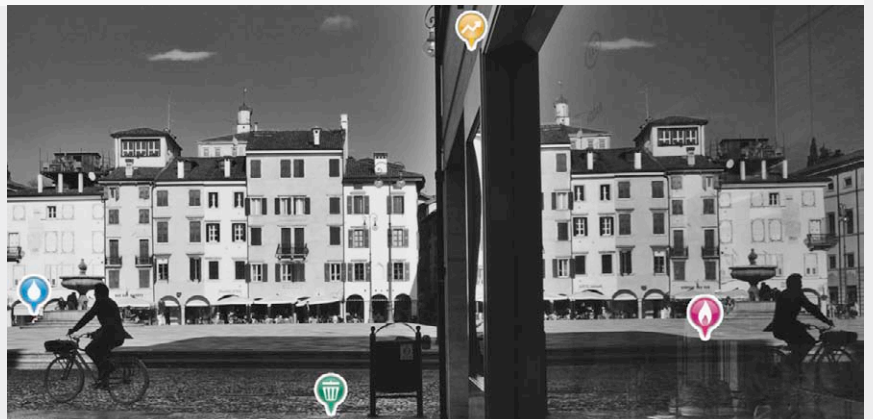
IMPLEMENTATION OF SYSTEM AND INFRASTRUCTURE INTEGRATION

- Start up of a new model of facility management
- Intercompany contracts' alignment
- Optimisation of procurement strategies
- Optimisation of management strategies in Networks and Waste
- Rationalisation of laboratories
- Customer base - Best practice promotion
- New efficiencies in central services
- Further progress in corporate structure rationalisation
- HR - Management of Economic Parameters
- Optimisation of Debt Collection activities
- Update of Waste vehicle fleet and Uniflotte

E MANAGEMENT

- Business Disaster Recovery Management
- Investment Expert System
- Multi-level Training for promotion of the Leadership Model
- Internal Climate Survey and Ethical Code implementation
- Coordinated Sustainability Policies and Stakeholder Engagement
- Execution of the 'Smart company/Smart city' projects
- Improvement in CRM performance and service quality
- HR Management of Development Parameters and Organisation
- 18001 and 50001 certifications
- Direction of External Communications

The governance of such a complex set of projects is guaranteed through bimonthly meetings focused on main initiatives, the **Operations' Management Meetings**, task forces on specific issues and, lastly, **task forces on-demand**. Such structure is placed into the framework of a Balanced Scorecard system that monitors progress in the 50 projects quarterly.



Hera share

Price as at 11 November 2014: **2.03 €**

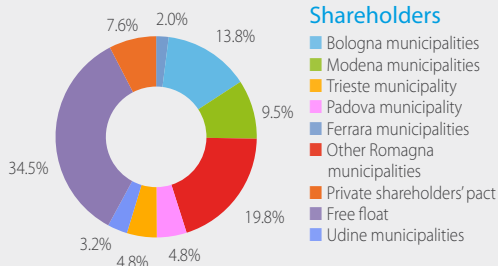
High-Low 365 dd: **2.17-1.63 €**

No. outstanding shares: **1,489,538,745**

Mkt. Cap.: **3.02 bn €**

Consensus target price **2.52 €**

(source: ricerca broker)



Hera's stock index membership

FTSE Italia | All-Share Capped + All-Share+ Mid Cap + Servizi Pubblici

STOXX | Total Market Index+Europe+Europe ex-UK+Italy

STOXX | TMI+Europe nei segmenti: Utilities, Gas-Water & Multiutilities, Value

Axia Ethical Kempen SNS Smaller Europe SRI Index

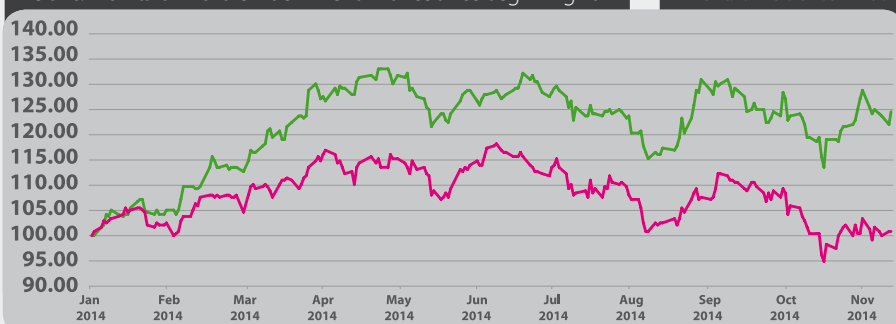
FTSE ECPI | Italia SRI Benchmark + Italia SRI Leaders + Ethical Index EMU

Shareholder base after the AMGA Udine merger, calculated on the back of a share capital of 1,489,538,745 shares, with 1 euro par value.

Hera's stock price since beginning 2014



Hera vs. FTSE Italia All-share Index – Performance since beginning 2014



During the weeks following the issue of the last newsletter (27 August 2014), stock markets' performances have been mainly affected by global growth uncertainties and worsening of geopolitical tensions in Ukraine, Hong Kong and Middle East. In Italy, where a deep weakness of real economy dominates the scenario, worries about further delays in reforms have also played a role. On the contrary the Hera stock - even penalized to some extent by the sentiment driven by general uncertainty - has continued to show a strong positive performance vs. the price levels of January 2014, taking the outperformance vs. the FTSE Italy All-Share Index beyond 20%. The market expects Hera to play a major role in the consolidation process that will involve the Italian sector; it has therefore appreciated the healthy fundamentals confirmed by half-year results released in late August and welcomed the Business Plan targets announced on 1st October; during the wide road show that has taken place in the following weeks, Hera top managers met with investors in 11 different financial centers in Europe e in the United States, achieving a broad consensus from the feedback about the growth strategy that the Plan presents.

ANALYST COVERAGE

Broker	Price €	Rating
Banca Akros	2.60	Buy
Banca IMI	2.60	Buy
Equita	2.40	Buy
Fidentiis Equities	2.40	Buy
Goldman Sachs	2.70	Buy
Intermonte	2.50	Outperform
KeplerCheuvreux	2.34	Buy
Mediobanca	2.60	Outperform
Average (8 brokers)	2.52	

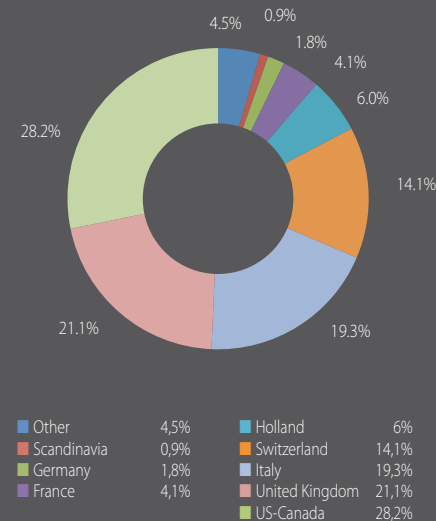
Following to the release of half-year results and the presentation of the new Business Plan the picture of ratings for the Hera stock remained unchanged, with recommendations being 100% favourable (8 out of 8 brokers covering the stock): in more detail, six analysts have a buying recommendation (Buy), while the remaining two analysts expect the stock to outperform the benchmark (Outperform). Each analyst has a target price well above the current price, ranging from a 2.34 low to a 2.70 high. The consensus target price improved from 2.39 as of 27 August 2014 to 2.52 euro (+5.4%); at recent prices the stock is therefore undervalued by roughly 25%.

11 november 2014



Hera Investor Relations Team

INSTITUTIONAL SHAREOLDERS GEOGRAPHIC BREAKDOWN (16.5% of share capital)



DESTINATIONS OF THE BUSINESS PLAN ROAD SHOW

Milan
London
Paris
Boston
Chicago
New York

Zurich
Geneva
Helsinki
Copenhagen
Amsterdam

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