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01 Message from the Executive Chairman of the Board

Hera's EBITDA increases by 4.4% in H1, leveraging on effective strategy



Dear shareholders, H1 2014 results present a 4.4% growth at EBITDA level. A performance proving, once again, the effectiveness of strategic pillars in allowing us to stay on the right track to achieve Business Plan targets despite an unfavorable external environment, featuring markedly high winter temperatures and a longstanding weakness in real economy. All growth levers contributed to the positive EBITDA performance: continuous quest for new organic efficiencies, combined with extraction of synergies from the AcegasAps integration; expansion of market shares in liberalised businesses; well-balanced portfolio presence of regulated activities that, particularly thanks to the water tariff adjustments, in H1 have supported the pace of growth while in Italian energy consumptions were falling by 3%. The effectiveness of that set of drivers has proven to be even clearer in the second quarter, when typically results are less affected by weather conditions: we have achieved a six-month increase of 4.4% against a 1.7% growth in Q1. In June we placed a 500 million euro green bond, with a 2.375% coupon and

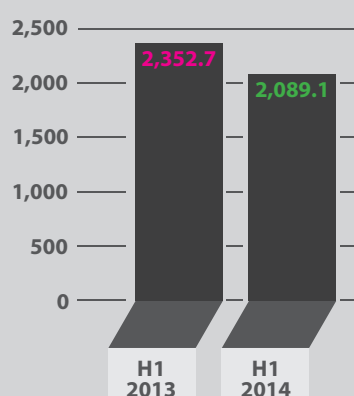
10-year duration. We have been the first Italian company to issue a bond with these features. Following a roadshow across the main European financial cities, the bond has been successfully placed in a few hours, with subscriptions largely exceeding the offered amount, at an annual rate of 2.436%. Investors have appreciated the visibility and transparency of the bond: proceeds will exclusively be used to fund sustainable investment project that have already been identified; Hera is furthermore committed to provide disclosure about KPIs of each investment over time. The green bond placement allowed the re-financing of expiring loans at a rate that is 40 bps below the 10-year BTP (Italy Treasury Bond). The issue is part of a wider corporate financial strategy, aiming at ensuring effective support

to growth through well-balanced leverage and proper source flexibility. In the first half we have also successfully completed the acquisition of Amga Udine. The merger is effective since 1st July. That means that in H2 the consolidated P&L of Hera will benefit from the complete contribution of the newly merged company. Another reason to look with confidence toward the achievement of Plan targets.

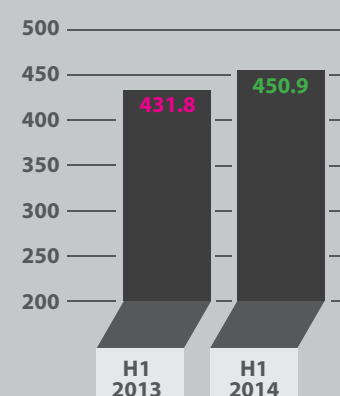
Tomaso Tommasi di Vignano

CONSOLIDATED H1 EBITDA INCREASES BY 4.4%, SHOWING AN ACCELERATION VS. THE 1.7% GROWTH RATE OF Q1.

Revenues - m €



EBITDA - m €



The effective growth strategy has allowed Hera to offset the negative impact of external variables, such as mild winter temperatures and the 3% decrease in Italian energy consumptions.



Udine - The Castle

FIRST HALF 2014

(figures in million euro)

REVENUES

2,089.1 (-11.2%)

EBITDA

450.9 (+4.4%)

EBIT

242.8 (+3.1%)

INVESTMENTS

137.3 (100% operating)

NET FINANCIAL DEBT

2,730.5

Focus on first half 2014 results

/// The 4.4% EBITDA increase proves the effectiveness of Hera's growth strategy: such a result could not have been achieved in absence of the new size gained through M&A, successful commercial policies aiming at market share expansion and well-balanced portfolio mix. H1 2014 presented an unfavourable environment; the highest temperatures occurred in the last 30 years and a still difficult macroeconomic context have negatively affected both volumes and sales prices in Energy businesses.

/// Continuous quest for efficiency and synergies from the integration process of the lastly-acquired companies contributed to the substantial improvement in marginality. EBITDA margin increased from 18.4 to 21.6%.

Hera's consolidated H1 2014 results present a 4.4% increase at EBITDA level, against a P&L headline decrease; Revenues decline by 11.2%, mainly as a result of lower gas volumes, due to particularly mild weather conditions and declining commodity prices, which penalised the value of electricity sales, while domestic consumption were falling by 3%. The headline decrease could have been even larger, considering that higher revenues from treated waste and positive performance of regulated businesses have partly counterbalanced negative drivers.

EBIT shows a 3.1% increase after the absorption of a 6.0% increase in Depreciation and Provisions. Financial Operations amount to -66.5 million euro, showing a 2.6 million improvement vs. H1 2013. Adjusted Pre-Tax Profit (excluding the impact of "Other non-operating revenues" posted in H1 2013) presents a 2.8% rise, reaching 176.3 million euro.

Taxes, which amount to 69.5 million euro, weight by 39.4% on

the adjusted Pre-Tax Profit, benefitting from a 4 percentage point decline in the Robin Hood Tax for the Group energy companies. Adjusted Net profit in H1 2014 then reaches 106.8 million euro, increasing by 8.9% over H1 2013.

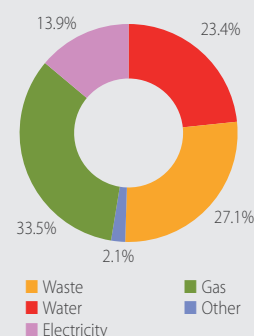
EBITDA

m €	H1 2013	H1 2014	Change
Waste	119.6	122.4	+2.4%
Water	86.8	105.3	+21.3%
Gas	167.4	151.1	-9.7%
Electric Energy	46.0	62.7	+36.4%
Other	12.1	9.4	-22.2%
TOTAL	431.8	450.9	+4.4%

*The 4.4% improvement of Group EBITDA mirrors very different performances across Hera's business areas. In line with Q1, **Electric Energy** presents the best performance (+36.4%), benefitting from positive drivers: further expansion (+9.8%) in the customer base (approximately +41,000 in H1), better margins in sales activities and higher revenues from the regulated distribution service, reflecting the contribution of Est Reti Elettriche. Those positive factors could wipe off the impact of a set of negative external variables: the 18.0% decrease in energy price, particularly mild weather conditions in the first four months of 2014 and*

*weak economic environment, which led to a 3% decrease in domestic consumptions. Even the **Water** business continues to show strong EBITDA performance (+21.3%, improving even vs. a 10.0% growth rate recorded in Q1), thanks to the new tariff system set by the AEEGSI (the Italian Regulator) and higher revenues posted according to the application of IFRIC 12. **Waste** EBITDA increases by 2.4% over H1 2013; the 11% rise in marketed waste has been driven by successful commercial activities in Northern and Central Italy, which has led to a 25.1% expansion in market waste, against a stability*

*(-0.1%) in urban waste. Treated waste have shown a 6.2% increase, with improvements across all the type of plants. Those elements succeeded in counterbalancing the maintenance stop in a WTE plant and the decline in energy prices. **Gas** EBITDA (-9.7%) continues to decline, as a result of volume fall (namely -20.4% in distributed volumes and -23.4% in sold volumes) due to particularly mild weather conditions experienced in the first four months of 2014. Such impact was partly mitigated by the completion of the Isontina Reti Gas acquisition and higher profitability of Efficiency Energy Certificates.*

H1 2014
EBITDA Breakdown

With the current organisational model, Hera is ready to face new market challenges

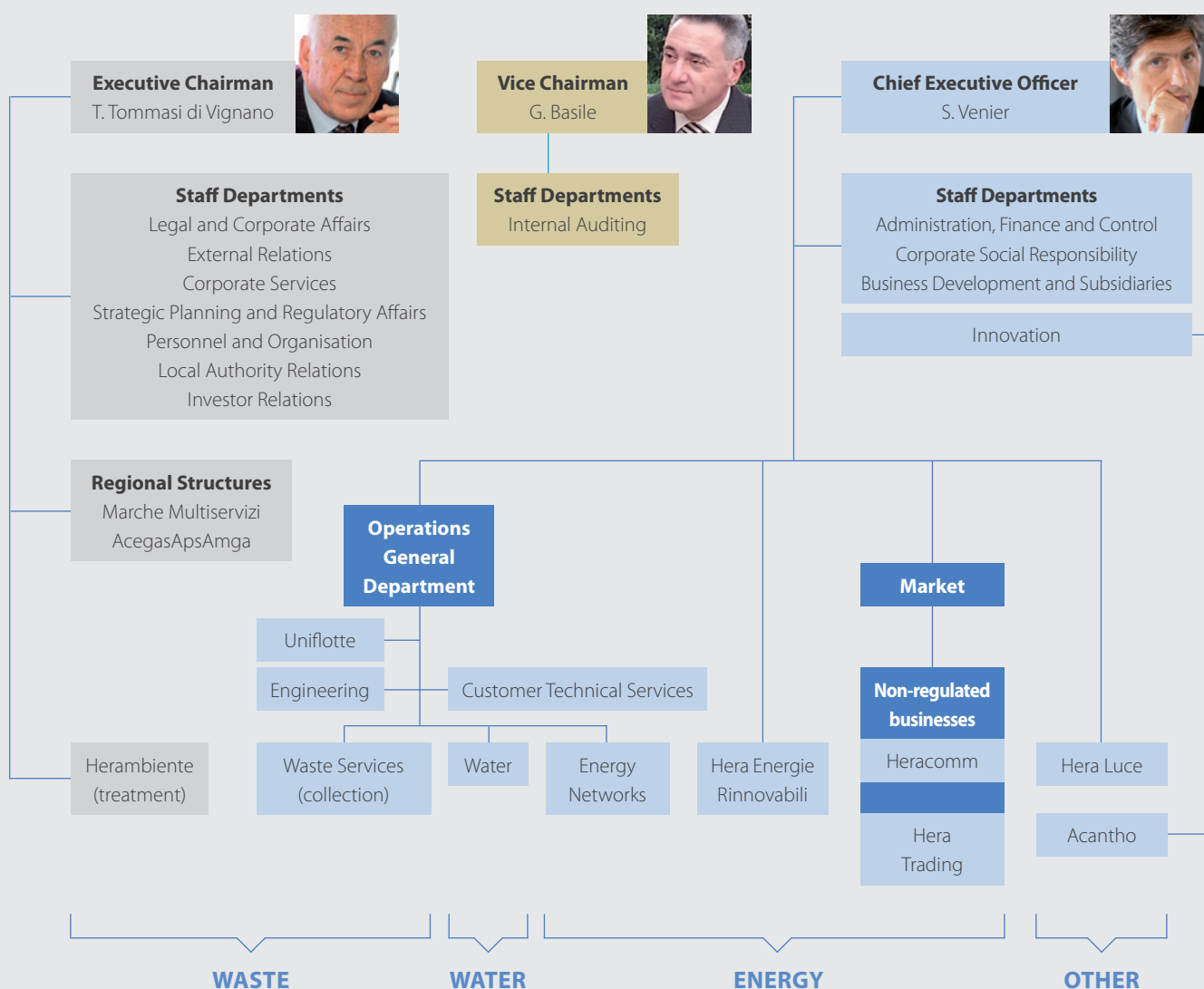
/// The organisation, effective since 28 April 2014, reflects Hera's commitment to achieve increasingly stronger competitiveness in core businesses and territories.

The new structure, in place since 28 April – coinciding with the appointment date of the new Group top management - represents an **evolution** of the previous model that takes into account the **growing challenges arising in Hera's operating markets**. It is also key to the achievement of **long-term**

strategic targets outlined in the Group Business plan.

The chart below presents the new organisation through a simplified chart. The **Executive Chairman, Tomaso Tommasi di Vignano**, heads, besides some **staff** departments, also the two companies representing **regional structures**, namely

Marche Multiservizi e AcegasApsAmga. Even Herambiente, the company operating in the waste treatment business, reports to the Executive Chairman. The remaining **staff** departments and all **operating activities**, with the exception of Herambiente, report to the **CEO, Stefano Venier**.



The model includes **two new Departments**, respectively dedicated to **Innovation** and **Local Authority Relations**. A choice highlighting Hera strategic belief that competition has to be addressed leveraging on excellent operational and technological skills and strong territory structure. Hera's model

has become as straightforward as possible in order to improve its effectiveness over time. It therefore aims to properly **balance local roots and business perspective**.

By favouring the exploitation of cost and revenue synergies, the new organisational chart guarantees ever growing **operating**

efficiency and **functional specialisation**.

The new model moreover provides strengths that might prove to be effective in making Hera an **increasingly stronger competitor in sight of the coming tenders** for expiring regulated concessions

Hera share

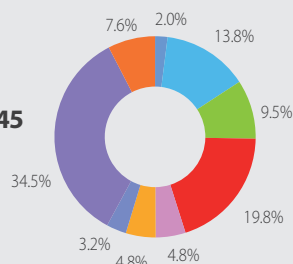
Price as at 26 August 2014: **2.05 €**

High-Low 365 dd: **2.17-1.63 €**

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

Mkt. Cap.: **3.05 bn €**

Consensus target price **2.39 €**
(source: broker research)



Shareholders

- Bologna municipalities
- Modena municipalities
- Trieste municipalities
- Padova municipalities
- Ferrara municipalities
- Other Romagna municipalities
- Private shareholders' pact
- Free float
- Udine municipalities

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.

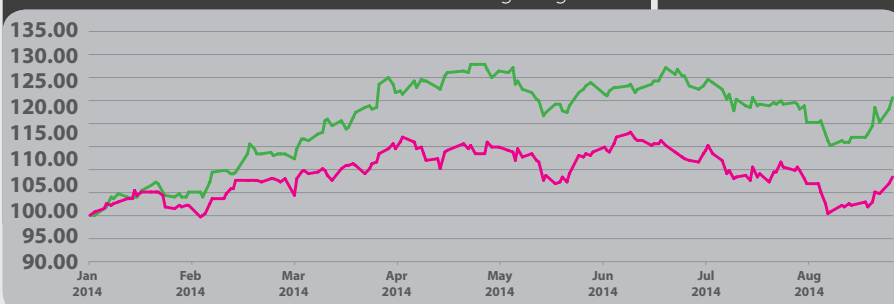
Hera's stock index membership

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

Hera's stock price since beginning of 2014



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



The market has welcomed Hera's 2014 first-quarter results and the completion of the Amga acquisition; so, during the weeks following the issue of the last newsletter, the share price has again tested year-highs, topping at 2.16 euro on 20 June 2014: a level that is very close to the previous 2014 high, reached on 24 April at 2.17 euro.

Since the last decade of June onwards, the equity market – and accordingly the Hera share – has reflected the worries for the rising geopolitical tensions and the disappointment for KPIs proving the uncertainty of the economic recovery, notwithstanding the beneficial impact on stock valuations of the accommodating monetary policy pursued by the ECB. As the two charts effectively indicate, despite the share price has retraced part of the uptrend after reaching the high at 2.16 euro, the Hera shareholder still enjoys a substantial capital gain (on top of the dividend yield resulting from the DPS of 9 euro cents paid on 5 June), while benefiting from a strong outperformance of the Hera share vs. the Italian equity market, represented by the FTSE Italy All-share Index.

ANALYST COVERAGE

Broker	Target price €	Rating
Banca Akros	2.60	Buy
Banca IMI	2.60	Buy
Equita	2.16	Buy
Fidentiis Equities	2.25	Buy
Goldman Sachs	2.70	Buy
ICBPI	1.92	Buy
Intermonte	2.60	Outperform
KeplerCheuvreux	2.34	Buy
Mediobanca	2.30	Outperform
Average 9 brokers	2.39	

26 August 2014

Following the release of Q1 2014 results, the analysts following the Hera share have updated their valuations, on the back of the good performance of Company's fundamentals and considering the scenario of low interest rates that the ECB continues to indicate. Six brokers, out of nine representing the full coverage, have increased their target prices. Consensus, showing the average of the 9 analyst target prices, hence moved from 2.28 to 2.39 euro. In line with the last issue of the newsletter, the picture of ratings just presents buying recommendations (namely 7 Buy and 2 Outperform ratings). No holding/selling suggestion among the brokers covering Hera.

27 August 2014

BoD for the approval of H1 2014 results

13 November 2013

BoD for the approval of 9M 2014 results



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HeraNews

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