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Hera presents a growing EBITDA despite unfavourable weather conditions in the first quarter



Dear shareholders, first quarter 2014 results, which present an EBITDA growth of 1.7%, prove that Hera succeeded in containing the negative impact of unfavourable weather conditions thanks to the new dimensional scale achieved as a consequence of the AcegasAps integration and the sound balance maintained between regulated and liberalised businesses. The effective commercial push has led to increase the market share in the Waste business, with a 37% growth in special waste and a consequently higher waste-to-energy incentivised production. Hera has furthermore experienced an increase in the number of electricity customers, thanks to the 68,000 new contracts signed over the last 12 months, out of which 20,000 in the last three ones.

The effects at margin level are sizeable since today, thanks to an asset base of waste treatment plants that is geographically much more diversified, we can use the treatment capacity with clear advantages due to reduced logistic costs. Even Network activities during the first quarter have shown a rewarding performance, as the quest for further efficiency continues. The Authority has adjusted the tariff systems, incentivising regulated investments and

New size achieved, well-balanced portfolio mix, continuous expansion of market shares and synergies extraction from companies merged have counterbalanced the negative impact of weather conditions.

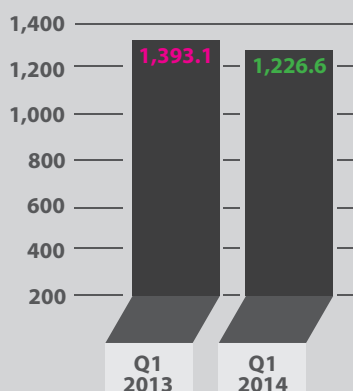
a sustainable management of operations. The Energy area has been affected by unfavourable weather conditions, since winter temperature substantially higher than average have reduced gas and electricity consumptions; the impact could have been even heavier in case Hera had not achieved significant market shares both in Gas, where the number of customers exceeds 1.1 million, and in Electricity, where the number of customers is around 730,000. We can therefore conclude that, inside the Energy area itself, Hera has managed to find mitigation factors to the negative impact of external variable that will extend their effect till year end. Considering the portfolio as a whole, such impacts have been completely counterbalanced by the sound performance of Waste and Networks. Hera share price, which recently present a 30% increase compared to the levels at the beginning

of the year, indicates that investors do appreciate the results that our growth strategy allows to achieve, even in terms of result protection from unfavourable external scenarios. Hera shareholders will benefit, on top of the capital gain, even from an attractive yield deriving from earnings distributions; the Shareholders' Meeting has indeed approved the dividend of 0.09 euro per share, with a yield amounting to 5.5% on the basis of the year-end share price.

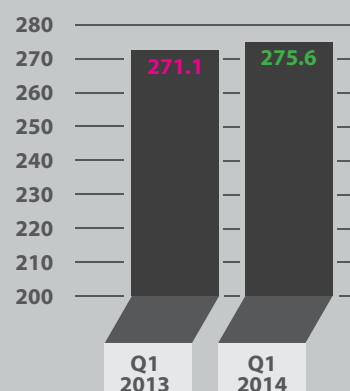
Tomaso Tommasi di Vignano

CONSOLIDATED EBITDA GROWS BY 1.7% EVEN THOUGH MILD TEMPERATURES HAVE AFFECTED THE ENERGY BUSINESSES.

Revenues - m €



EBITDA - m €





FIRST QUARTER 2014

(figures in million euro)

REVENUES

1,226.6 (-12.0%)

EBITDA

275.6 (+1.7%)

EBIT

172.9 (+0.2%)

INVESTMENTS

56.2 (100% operating)

NET FINANCIAL DEBT

2,540.3

Focus on first quarter 2014 results

/// Thanks to the larger size achieved and owing to a still well-balanced business mix, in the first quarter of 2014 Hera succeeded in offsetting the negative impact on EBITDA due to mild temperatures. EBITDA Margin improves from 19.5% to 22.5%.

/// The consolidated EBITDA performance (+1.7%) reflects how the progress recorded in each single area, namely in Networks (+21 million) and in the Waste business (+5 million), could offset the 20 million decline of Energy, mainly due to mild winter temperatures.

Hera's first quarter 2014 results present an increase in terms of EBITDA that, even though limited in terms of extent (+1.7%), nonetheless proves the achievements made possible by the new size gained at Group level, while maintaining a well-balanced portfolio mix: in absence of such premises Hera would neither have been able to compensate for the negative impact of some exogenous variables.

EBITDA

m €	Q1 2013	Q1 2014	Change
Waste	64.7	69.8	+7.9%
Water	44.1	48.5	+10.0%
Gas	130.0	116.6	-10.3%
Electric Energy	26.6	36.2	+36.2%
Other	5.8	4.5	-21.6%
TOTAL	271.1	275.6	+1.7%

EBITDA Margin presents a substantial rise, from 19.5% in Q1 2013 to 22.5%. Such performance reflects, besides the aforesaid EBITDA growth, even the decline in Revenues (-12.0%).

The headline of the quarterly P&L shows a decrease due both to mild temperatures mainly affecting gas volumes and to lower energy prices (-18%), generating a fall in the value of electricity sales. Such negative effects have been partially counterbalanced at Revenue levels by the increase in treated waste volumes. After the absorption of a 4.3% growth in Depreciation and Provisions, EBIT presents a 0.2% increase.

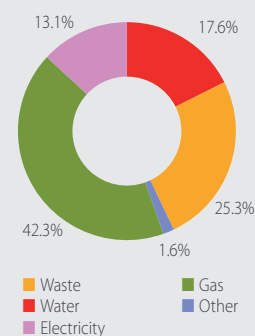
Financial operations show a slight improvement in the cost of debt, wiped-off by lower income from associates, due to mild winter weather conditions. Taxes, amounting to 51.3 million euro, weight for 36.5% on Pre-Tax Profit, thanks to the 4 percentage point decrease in the Robin Hood Tax for the Group energy companies.

Net profit in Q1 2014 therefore amounts to 89.1 million euro, up by 3% excluding the extraordinary item of 42.7 million, due to the accounting impact of the AcegasAps integration in 2013.

*The 1.7% increase of consolidated EBITDA sums up very different performances across Hera's business portfolio. The **Electric Energy** business shows the most sizeable increase (+36.2%), thanks to higher margins in sales, particularly in the free market and for "Salvaguardia" customers; it also benefits from higher revenues in regulated distribution services, even including the contribution of Est Reti Elettriche, in addition to the recovery of items existing prior to 2014. **Water***

*activities show the second best performance (+10.0%), thanks to the application of a new tariff method that envisages convergence towards full coverage of costs and higher revenues according to the application of IFRIC 12. Even the EBITDA of **Waste** (+7.9%) rises at a rate that is higher than the Group EBITDA one; such increase has been driven by the strong growth of treated volumes, following the development of commercial activities in Northern and Central Italy (+36.8% the*

*increase in market waste). Such growth in volumes has led in particular to a rise in landfill (+32.4%) and composting (+30.2%). Waste also benefits from higher revenues from urban production, driven by a growing service demand. A different direction characterises the performance of the **Gas** business EBITDA (-10.3%), which was heavily affected by the 13.9% decline in volumes sold, due to mild temperatures occurred in Q1 2014.*

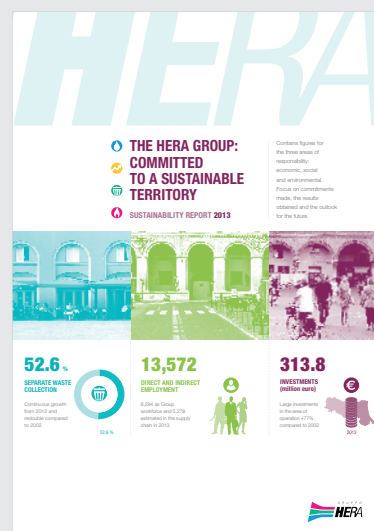
Q1 2014
EBITDA Breakdown

Hera's eleventh sustainability report portrays further progress

/// In 2013 Gross Overall Added Value grew by 27.6%.

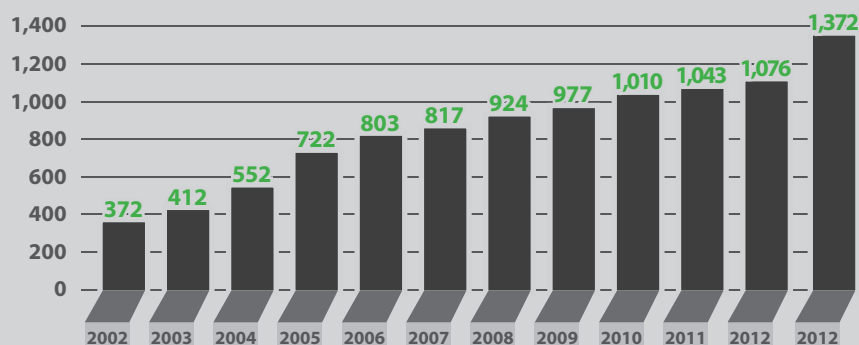
Hera's 2013 Sustainability Report has been drafted in accordance with the new guidelines of **GRI-G4**, released by Global Reporting Initiative in May 2013, whose adoption will become mandatory in two years for adhering companies. Such a decision once again proves Hera's commitment to a best practice communication, through a transparent and effective approach. In applying the G4 guidelines Hera followed the **Comprehensive** option – that is **complete application of requirements** – as audited by a third-party assurance company, DNV Italy. In line with the new attention to materiality of issues that the G4 guidelines

imply, the 2013 Report focuses on topics considered significant for stakeholders, which were identified also through the launch of the new **HERAlab** model of involvement of territory and local communities. New indicators have been calculated, in particular in the areas of supply chain and governance. Despite the difficult external scenario in which results have been achieved, the 2013 Sustainability Report presents for the eleventh year in a row an improvement in terms of Gross Overall Added Value. The increase over 2012 is equal to 296.4 million euro (**+27.6%**); a result made possible mainly thanks to the inclusion in the scope of consolidation of



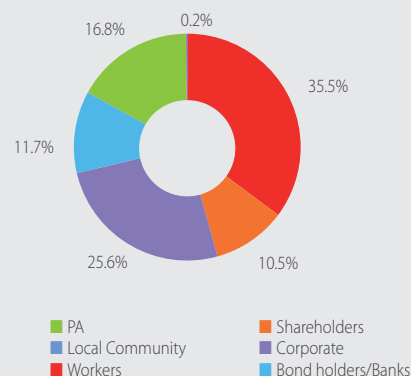
AcegasAps, providing a 233.7 million euro contribution. An intensive communication programme of the contents of the 2013 Sustainability Report will start on the coming 26 May with the inaugural presentation event at the Arena del Sole Theatre in Bologna. Professor Romano Prodi will take part to the event.

Gross Overall Added Value – ml €



Distribution of Added Value to Stakeholders indicates that shareholders benefitted from 144.7 million euro, representing 10.5% of overall Added Value achieved in 2013.

VA breakdown by stakeholder



New senior management at Hera

/// The appointment of new senior management at Hera ensures strategic and operational continuity to Group activities

In its first meeting, which was held on 28 April 2014, the Board of Directors appointed the new senior management of Hera, in a spirit of continuity with the approach to strategy and

operations that has driven the Company to a profitable growth over the last 12 years.



Tomaso Tommasi di Vignano, heading the Hera Group since its inception in 2002, was confirmed as chairman in his capacity as executive director.



Stefano Venier was appointed as CEO: he has been in Hera since 2004; up to date he has served in the position of General Manager for Development and Market of the Group.

AGM RESOLUTIONS

• AGM approved the 2013 Annual Report and the earnings distribution.

Shareholders at the General Meeting of 23 April 2014 approved the 2013 Annual Report and the distribution of a dividend of **9 cents per share**, which will be paid **on 5 June 2014**, after the clipping of coupon no. 12 on 2 June. 275 shareholders attended – in person or by proxy – the General Meeting for a total of 1,045,764,613 shares, representing 73.6% of the share capital. The Annual Report and the 2013 dividend have been approved with a majority of 99.9% of voting shares.

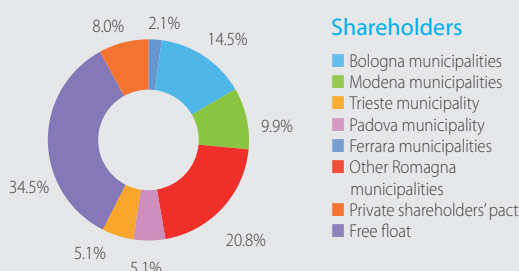
• The General Meeting also resolved upon further relevant topics, among which the merger of Amga Udine into Hera and the renewal of the Board.

Through the transfer of Amga gas distribution operations to AcegasAps and the transfer of energy sales and district heating to Heracomm, the merger approved by the AGM will take place, with effect starting from 1st July. A new significant multi-utility hub in Italy's North-East therefore takes shape, in line with Hera's Business Plan. The new Board of Directors for the next three years presents a decrease in the number of its members from 20 to 14, with the aim to ensure a more dynamic and effective interaction among them. Here follow the names of the **11 Board members** elected from the **majority slate**, expression of the agreement signed by Hera's public shareholders: Tomaso Tommasi di Vignano, Stefano Venier, Giovanni Basile, Giorgia Gagliardi, Stefano Manara, Danilo Manfredi, Forte Clò, Tiziana Primori, Luca Mandrioli, Cesare Pillon and Riccardo Illy. The **three members** elected from the **minority slate** are: Mara Bernardini, Massimo Giusti and Bruno Tani.

Hera share

Price as at 13 May 2014: **2.05 €**
 High-Low 365 dd: **2.17-1.36 €**
 No. outstanding shares: **1,421,342,617**
 Mkt. Cap.: **2.91 bn €**

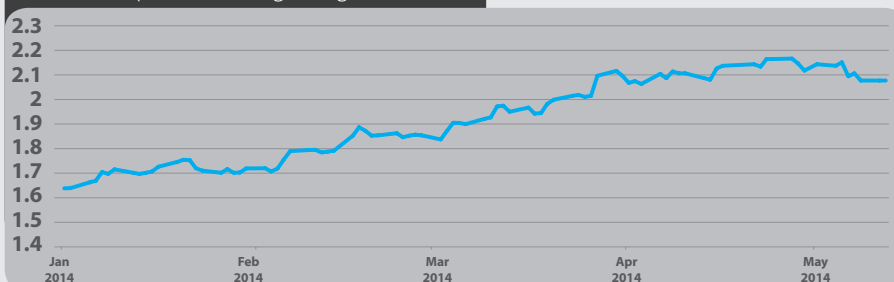
Consensus target price **2.28 €**
 (source: broker research)



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



Since the beginning of 2014 Hera's share price has shown a substantially stronger performance than the one of the all-share Italian market index. On 25 April Hera's overperformance reached 20%. That proves that the generally renewed interest of international investors in the Italian market presents peculiar features depending on the fundamentals of each listed Company. The Hera's closing share price, which has topped at 2,172 euro on 28 April 2014, during the last weeks has been driven upwards by the favourable market welcome to 2013 annual results, which have been released on 20 March 2014 and presented in the main financial hubs during an extensive roadshow across Europe and the United States. These results moreover allow the distribution of a 9 cents dividend per share, which will be paid on the coming 5 June. Hera's share performance also reflects the perspectives of an ever stronger competitive position of the Group, made even more visible by the successful closing of the Amga deal, whose merger has been approved at the AGM, following the Italian Competition Authority's resolution not to open an inquiry into it.

ANALYST COVERAGE

Broker	Target price €	Rating
Banca Akros	2.35	Accumulate
Banca IMI	2.50	Buy
Equita	2.15	Buy
Fidentiis Equities	2.25	Buy
Goldman Sachs	2.50	Buy
ICBPI	1.92	Buy
Intermonte	2.35	Outperform
KeplerChevreux	2.17	Buy
Mediobanca	2.30	Outperform
Average 9 brokers	2.28	

13 May 2014

Since the date of the last issue of this newsletter, on 20 March, the number of analyst following the Hera share has further increased, from 8 to 9, thanks to the entry of Fidentiis Equities that has initiated the coverage with a Buy rating and target price of 2.25 euro. Consensus, represented by the average of brokers' target prices, therefore moves from 2.08 to 2.28. No broker suggests to hold the share. Neither to sell it. The picture of ratings hence consistently presents buying recommendations.

14 May 2014

BoD for the approval of Q1 2014 results

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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The next issue of this newsletter will be on 27 August 2014.

HeraNews

Managed by
 Jens K. Hansen
 Concept and editorial contents
 Blue Arrow, Milan
 Graphics
 moma Studio, Milan