Consolidate quarterly report

as at

30 september 2018

GRUPPO HERA

15 ANNI

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Introduction

Governance and control bodies

Board of Directors	
Chairman	Tomaso Tommasi di Vignano
CEO	Stefano Venier
Vice Chairman	Giovanni Basile
Director	Francesca Fiore
Director	Giorgia Gagliardi
Director	Massimo Giusti
Director	Sara Lorenzon
Director	Stefano Manara
Director	Danilo Manfredi
Director	Alessandro Melcarne
Director	Erwin Paul Walter Rauhe
Director	Duccio Regoli
Director	Federica Seganti
Director	Marina Vignola
Director	Giovanni Xilo
Board of Statutory Auditors	
Chairman	Myriam Amato
Standing Auditor	Antonio Gaiani
Standing Auditor	Marianna Girolomini
Control and Risk Committee	
Chairman	Giovanni Basile
Member	Erwin Paul Walter Rauhe
Member	Duccio Regoli
Member	Sara Lorenzon
Remuneration Committee	
Chairman	Giovanni Basile
Member	Francesca Fiore
Member	Massimo Giusti
Member	Stefano Manara
Executive Committee	
Chairman	Tomaso Tommasi di Vignano
Vice Chairman	Giovanni Basile
Member	Stefano Venier
Member	Federica Seganti
Ethics Committee	
Chairman	Massimo Giusti
Member	Mario Viviani
Member	Filippo Maria Bocchi
Independent auditing firm	
	Deloitte & Touche Spa

Mission

Hera aims at being the best multi-utility in Italy for its customers, workforce and shareholders. It intends to achieve this through further development of an original corporate model capable of innovating and of forging strong links with the areas in which it operates by respecting the local environment.

For Hera, being the best is a way of creating 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 area, because economic, social and environmental wealth represents the promise of a sustainable future; and suppliers, key elements in the value chain and partners for growth.

1

Directors' Report

1.01
Overview of Group management performance and definition of alternative performance measures

Operating APMs and investments

Operating APMs and investments (mn€)	Sept 18	Sept 17	Abs. Change	% Change
Revenues	**4,348.4**	**4,027.8**	**+320.6**	**+8.0%**
Ebitda	**748.6**	**724.7**	**+23.9**	**+3.3%**
Ebitda/revenues	17.2%	18.0%	-0.8 p.p.	
Ebit	**376.5**	**357.9**	**+18.6**	**+5.2%**
Ebit/revenues	8.7%	8.9%	-0.2 p.p.	
Net profit	**220.7**	**192.8**	**+27.9**	**+14.5%**
Net profit/revenues	5.1%	4.8%	+0.3 p.p.	
Net investments *	**287.3**	**248.0**	**+39.3**	**+15.8%**

* for the data used in calculating investments, see notes 13, 14, 15, 16 in the explanatory notes and paragraph 1.01.02 of the overview of Group management performance

Financial APMs

Financial APMs (mn€)	Sept 18	Dec 17	Abs. Change	% Change
Net non-current assets	5,837.0	5,780.6	+56.4	+1.0%
Net working capital	186.4	23.2	+163.2	+703.4%
Provisions	(578.5)	(574.8)	-3.7	-0.6%
Net invested capital	5,444.9	5,229.0	+215.9	+4.1%
Net debt	**(2,642.0)**	**(2,523.0)**	**-119.0**	**-4.7%**

Alternative performance measures (APMs)

The Hera Group uses Alternative performance measures (APMs) to more effectively convey information concerning trends in the profitability of the businesses in which it operates, as well as its equity and financial situation. In accordance with the guidelines published on 5th October 2015 by the European securities and markets authority (Esma/2015/1415) and in keeping with the provisions of Consob communication no. 92543 of 3rd December 2015, the content of and the criteria used in defining the APMs used in this financial statement are explained below.

Operating APMs and investments

Ebitda is a measure of operating performance and is calculated as the sum of "Operating income" and "Depreciation, amortization and write-downs." This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors), and is a useful measure in evaluating the operating performance of the Group (as a whole, and within each business unit), also allowing for a comparison between operating profits of the reporting period with those of previous periods. In this way it is possible to analyze trends and compare the efficiencies achieved in different periods.

Ebit is a measure of operating performance and is calculated by subtracting operating costs from operating revenues. Among operating costs, amortisations and provisions are deducted from the special operating items which, if present, are described in the detailed table at the end of this paragraph. This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors), and is a useful measure in evaluating the operating performance of the Group (as a whole, and within each business unit), also allowing for a comparison between operating profits of the reporting period with those of previous periods. In this way it is possible to analyze trends and compare the efficiencies achieved in different periods.

Pre-tax results are calculated by subtracting the financial management shown in the balance sheets from Ebit, as described above, net of special financial items which, if present, are described in the detailed table at the end of this paragraph.

Net results are calculated by subtracting from pre-tax results, as described above, the taxes shown in the balance sheets minus special fiscal items which, if present, are described in the detailed table at the end of this paragraph.

Results from special items (if present in the current report) are an APM aimed at drawing attention to the result of the special item entries which, if present, are described in the detailed table at the end of this paragraph. In the directors' report, this measure is placed between net results and net income for the period in question, thus allowing the performance of the Group's characteristic management to be read more clearly.

Ebitda on revenues, Ebit on revenues and net income on revenues are used as financial targets in internal documents (business plans) and external presentations (to analysts and investors), and measure the Group's operating performance through a proportion, expressed as a percentage, of Ebitda, Ebit and net income divided by the value of revenues.

Net investments are the sum of investments in tangible fixed assets, intangible assets and equity investments net of capital grants. This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors), and is useful in evaluating spending capacity for the Group's investments in maintenance and development (as a whole and within each business unit), also allowing for a comparison with previous periods. This measure makes it possible to analyze trends.

Financial APMs

Net fixed assets are calculated as the sum of: tangible fixed assets; intangible assets and goodwill; equity investments; deferred tax assets and liabilities. This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors), and is useful in evaluating the Group's net assets as a whole, also allowing for a comparison with previous periods. In this way it is possible to analyze trends and compare the efficiencies achieved in different periods.

Net working capital is made up of the sum of: inventories; trade receivables and payables; current tax receivables and payables; other assets and other current liabilities; the current portion of assets and liabilities for financial derivatives on commodities. This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors), and is useful in evaluating the Group's ability to generate cash flow through operating activities over a period of 12 months, in addition to comparisons with previous periods. In this way it is possible to analyze trends and compare the efficiencies achieved in different periods.

Provisions includes the sum of the items “employee severance indemnities and other benefits” and “provisions for risks and charges”. This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors), and is a useful measure in evaluating the Group’s ability to deal with possible future liabilities, also allowing for a comparison with previous periods. This indicator makes it possible to analyse trends and compare the efficiencies achieved in different periods.

Net invested capital is defined by calculating the sum of “net fixed assets”, “net working capital” and “provisions”. This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors), and is useful in evaluating all of the Group’s current and non-current operating assets and liabilities, as specified above.

Net financial debt (at times referred to below as Net debt) is a measure of the company’s financial structure determined in accordance with Consob communication 15519/2006, adding the value of non-current financial assets. This measure is therefore calculated by adding together the following items: current and non-current financial assets; cash and cash equivalents; current and non-current financial liabilities; current and non-current portions of assets and liabilities for derivative financial instruments on interest and exchange rates. This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors), and is a useful measure in evaluating the Group's financial debt, also allowing for a comparison with prior periods. In this way it is possible to analyze trends and compare the efficiencies achieved in different periods.

Sources of financing are obtained by adding “net financial debt” and “net equity”. This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and represents the breakdown of sources of financing, distinguishing between the company’s own equity and that of third parties. It is a measure of the Group’s financial autonomy and solidity.

Operating-financial APMs

The **Net debt to Ebitda ratio**, expressed as a multiple of Ebitda, is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and represents a measure of the operating management’s ability to pay back its net financial debt.

Funds from operations (Ffo) are calculated by subtracting from Ebitda provisions for doubtful accounts, financial charges, uses of provisions for risks and severance pay and taxes, net of the fiscal effects deriving from the special items which, if present, are described in the detailed table at the end of this paragraph. This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and represents an indicator of the operating management’s ability to generate cash.

The Ffo/Net debt indicator, expressed as a percentage, is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and represents an indicator of the operating management’s ability to pay back its net financial debt.

Roi, or return on net invested capital, is defined as the ratio between Ebit, as described above, and net invested capital, and is expressed as a percentage. This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and is intended to indicate the ability to produce wealth through operating management, thus remunerating equity and capital pertaining to third parties.

Roe, return on equity, is defined as the ratio between net profits for the period in question and net equity, and is expressed as a percentage. This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and is intended to indicate the profitability obtained by investors, recompensing risk.

Cash flow is defined as operating cash flow, net of dividends paid. Operating cash flow is calculated as Ebit (as previously described, net of provisions for special items, if present), to which the following are added:

- amortisation and provisions for the period, not including provisions for doubtful debts;
- changes in net working capital;
- provisions for the risk fund (net of decreases in provisions);
- use of severance pay reserves;
- the difference between changes in taxes paid in advance and in deferred taxes;
- operating and financial investments;
- financial charges and financial income (*);
- changes in treasury shares held;
- current taxes.

(*) net of the effects of updating derived from applying accounting principles Ias 37 and Ias 19 and the profits coming from associated companies and joint ventures, plus the dividends received from the latter.

This measure is used as a financial target in internal documents (business plans) and external presentations (to analysts and investors) and is intended to indicate the company's ability to generate cash flow and therefore its ability to finance itself.

Special item / balance sheet reconciliation

Financial special items	Sept 18
Financial operations from financial statement	**(60.7)**
Financial special items	(4.8)
Financial operations	**(65.5)**
Result from special items	**4.8**

1.01.01

Operating and financial results

Constant growth in all indicators

The Hera Group closed the third quarter of 2018 with operating results rising compared to the same period of the previous year. Ebitda settled at € 748.6 million, up 3.3%, Ebit amounted to € 376.5 million, up 5.2% and net profits came to € 220.7 million, up 14.5%.

These results were achieved thanks to the Group's consolidated multi-business strategy, balanced between regulated and free market activities. The Hera Group pursues this model by combining internal growth and external development, obtained by grasping market opportunities.

The main corporate and business operations to be considered when evaluating the changes with respect to the first three quarters of 2017 are as follows:

- On 6th July 2017, Hera Comm Marche Srl acquired the full holding of the company Verducci Servizi Srl, which operates in the natural gas and electricity supply market, consolidating it as of December 2017.
- On 20th December 2017, effective as of 1st January 2018, acting through EnergiaBaseTrieste Srl, 13,000 protected electricity customers were acquired in the Municipality of Gorizia, previously served by Eni gas e luce Spa.
- Acting on the binding agreement signed on 21st December 2017, on 6th April 2018 Hera Spa transferred its entire holding in Medea Spa to Italgas Spa.
- On 8th February 2018, a 100% holding of Blu Ranton Srl, a company operating in gas and electricity sales to end customers, was acquired by Hera Comm Marche Srl. The company serves approximately 17,000 gas and electricity customers in Teramo, Pescara and Macerata.
- On 20th March 2018, Hera Comm Srl acquired 49% of Sangro Servizi Srl, a gas, electricity and other energy product sales company with approximately 7,000 gas customers served in the Province of Chieti.
- On 7th March 2018, the respective shareholders meetings approved a project for merger by incorporation of Megas Net Spa (a company related to the Group which owns distribution networks) into Marche Multiservizi Spa; the effective date of the transaction was 1st June 2018, with accounting and tax effects retroactively set at 1st January 2018.
- On 26th March 2018 Hera Comm Srl transferred 2.88% of the share capital of Hera Comm Marche Srl to minority shareholder Walter Sadori Srl.

The following table shows operating results at 30th September 2018 and 2017:

Constant and increasing growth

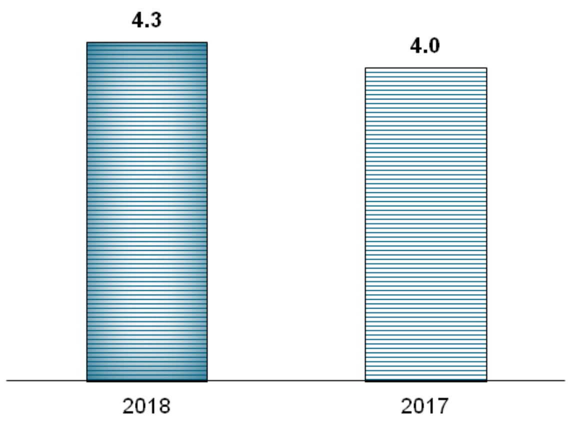
Income statement (mn€)	Sept 18	Inc%	Sept 17	Inc.%	Abs. Change	% Change
Revenues	4,348.4		4,027.8		+320.6	+8.0%
Other operating revenues	321.1	7.4%	327.3	8.1%	-6.2	-1.9%
Raw and other materials	(1,966.6)	-45.2%	(1,776.4)	-44.1%	+190.2	+10.7%
Service costs	(1,529.2)	-35.2%	(1,428.6)	-35.5%	+100.6	+7.0%
Other operating costs	(42.9)	-1.0%	(45.3)	-1.1%	-2.4	-5.3%
Personnel costs	(410.1)	-9.4%	(409.1)	-10.2%	+1.0	+0.2%
Capitalised costs	28.0	0.6%	29.1	0.7%	-1.1	-3.8%
Ebitda	**748.6**	**17.2%**	**724.7**	**18.0%**	**+23.9**	**+3.3%**
Amortisation, depreciation and provisions	(372.2)	-8.6%	(366.8)	-9.1%	+5.4	+1.5%
Ebit	**376.5**	**8.7%**	**357.9**	**8.9%**	**+18.6**	**+5.2%**
Financial operations	(65.5)	-1.5%	(74.4)	-1.8%	-8.9	-12.0%
Pre-tax result	**311.0**	**7.2%**	**283.5**	**7.0%**	**+27.5**	**+9.7%**
Taxes	(95.1)	-2.2%	(90.7)	-2.3%	+4.4	+4.9%
Net result	**215.9**	**5.0%**	**192.8**	**4.8%**	**+23.1**	**+12.0%**
Result from special items	**4.8**	0.1%	-	0.0%	+4.8	+100.0%
Net profit for the period	**220.7**	**5.1%**	**192.8**	**4.8%**	**+27.9**	**+14.5%**
Attributable to:						
Shareholders of the Parent Company	**208.7**	**4.8%**	**182.9**	**4.5%**	**+25.8**	**+14.1%**
Non-controlling interests	11.9	0.3%	9.9	0.2%	+2.1	+20.9%

Revenues rise thanks to higher volumes of energy sold

Revenues for the first three quarters of 2018 amounted to € 4,348.4 million, up € 320.6 million or 8.0% over the € 4,027.8 million recorded in the same period in 2017. This trend is due to a roughly € 92 million increase in trading, approximately € 131 million in higher revenues from gas and electricity sales owing to larger volumes sold and approximately € 83 million in higher system charges and volumes transmitted. Also note the higher revenues in the waste management area amounting to roughly € 22 million, in spite of the termination of waste services management for 13 municipalities in the Forlì area as of 1st January 2018, and higher revenues in the water service; the remaining changes in the Group's scope of operations, i.e. the entry of Blu Ranton Srl and Verducci Servizi Srl and the transfer of Medea Spa, contributed with roughly € 3.5 million overall. A fall in revenues that partially offset the growth described above mainly involved lower revenues from electricity production, amounting to € 25 million.

For further details, see the analyses of each single business area.

Revenues (bn€)



4.3
billion euro Revenues

Other operating revenues fell compared to the same period in the previous year by € 6.2 million or 1.9%. This drop is partially due to lower revenues from energy efficiency certificates, coming to € 8.7 million, owing to a lower price per unit following the 10th May 2018 Inter-Ministry decree that set a limit to the expected tariffary contribution, with a proportionate impact on the certificates' market price. Changes in the scope of operations, amounting to € 0.9 million, were a further factor responsible for the drop, which was offset by higher revenues from sorted waste and higher revenues from long-term contracts.

Increase in costs for raw materials linked to higher revenues

Costs for raw and other materials rose by € 190.2 million over 30th September 2017, corresponding to a 10.7% increase. Not including the € 2.0 million traceable to changes in the scope of operations, this rise is due to a larger amount of trading, a rise in the price of commodities and higher volumes of gas and electricity sold.

Other operating costs rose by € 98.2 million overall (with a € 100.6 million rise in costs for services and a € 2.4 million drop in other operating expenses). Excluding the changes in scope of operations, which reduced costs by roughly € 4.5 million, mention must go to the higher costs for system charges and volumes transmitted amounting to roughly € 83 million, higher costs for long-term contracts coming to € 8.5 million, higher costs in ICT amounting to roughly € 4.5 million and higher costs in commissions for energy agents. Lastly, the higher costs involved in waste treatment were offset by lesser plant maintenance, operating efficiencies in the regulated area and lower network concession fees.

+0.2% rise in personnel costs, due to increases in national labour contracts

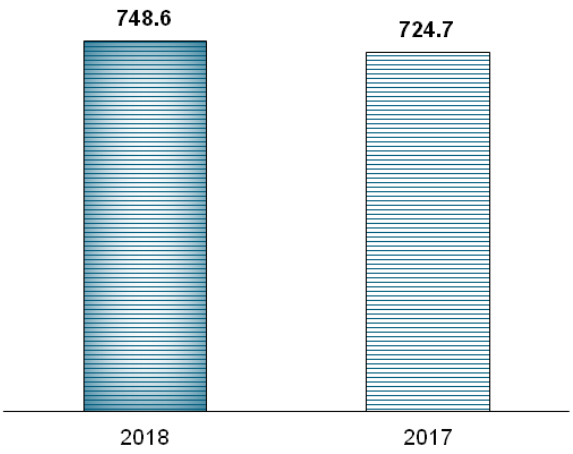
Personnel costs rose by € 1.0 million, or 0.2%, owing to the higher retribution foreseen by the National labour contract. The increase was offset by changes in the Groups' scope of operations, mainly involving the dismissal of resources involved in waste collection in the Forlì area, as mentioned above, whose impact came to € 3.0 million, and by a lower average presence.

Capitalised costs at 30th September 2018 fell by € 1.1 million or 3.8% compared to the same date one year earlier, due to a lower amount of work done on plants and assets owned by the Group.

Ebitda settled at € 748.6 million, rising by € 23.9 million or 3.3% over September 2017. The good performance seen in almost all business areas was responsible for this growth. The gas area contributed more than any other to this increase, thanks to a result that grew by € 20.8 million, due to higher volumes sold and higher income for sales and trading operations. Positive results also came from waste management, the integrated water cycle and the other services area. The electricity area fell by € 14.2 million, owing to lower income from electricity generation.

For further details, see the analyses of each single business area.

Ebitda (mn€)



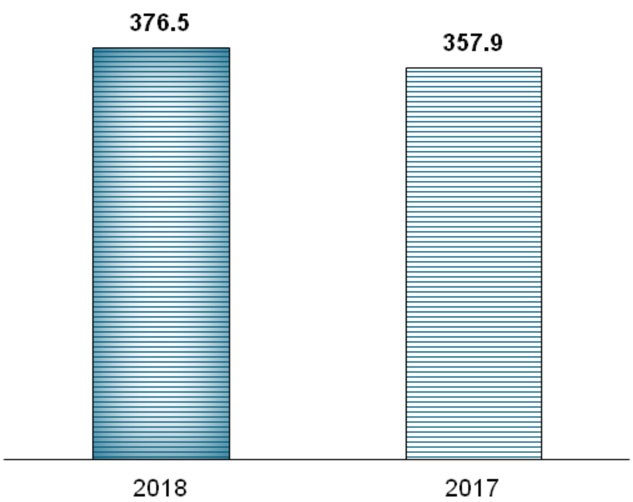
748.6
million euro
Ebitda (+3.3%)

Higher operating amortisations

Amortisations and provisions rose by € 5.4 million or 1.5%, going from € 366.8 million in the previous year to € 372.2 million at 30th September 2018. Amortisations rose on account of new investments in operations, while provisions for doubtful debts dropped, in particular in the sales company Hera Comm Srl.

Ebit came to € 376.5 million at 30th September 2018, up € 18.6 million or 5.2% compared to the € 357.9 million seen at the same date in 2017.

Ebit (mn€)



376,5
million euro
Ebit (+5.2%)

Good performance in financial management

The results of financial management for the first nine months of 2018 amounted to € 65.5 million, improving by € 8.9 million or 12.0% compared to the same period in 2017. The good performances were due to efficiency in rates and higher income for default indemnities from safeguarded customers. At 30th September 2018, compared to the same date in 2017, the Group furthermore received € 2.9 million in income from dividends paid by the investee company Veneta Sanitaria Finanza di Progetto.

Pre-tax profits grew by € 27.5 million, going from € 283.5 million at 30th September 2017 to € 311.0 million at the same date in 2018.

Tax rate falls

Income taxes for the first nine months of 2018, which came to € 95.1 million, defined a tax rate of 30.1%, with a clear improvement over the 32% seen one year earlier. The reason for this improvement lies mainly in the Group's constant commitment towards grasping all benefits foreseen by law, in particular the incentives for large and extremely large amortisations, extended for 2018 by law 205/17, regarding investments in instrumental goods serving technological and digital transformation along the lines of "Industry 4.0", in addition to tax credits for research and development and the final balance on previously acquired benefits (patent box).

Net results rose by € 12.0%, equivalent to € 23.1 million, going from € 192.8 million at 30th September 2017 to € 215.9 million at the same date in 2018.

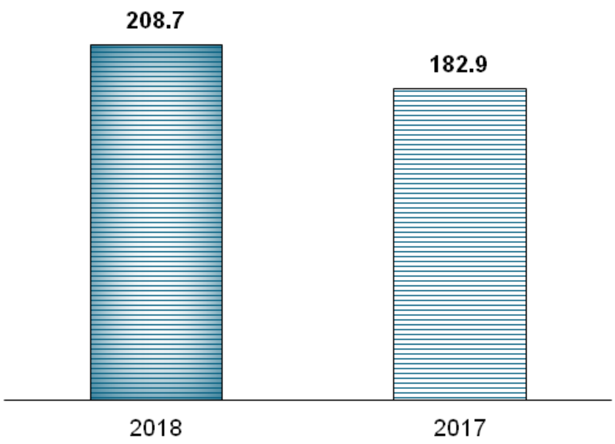
The first nine months of 2018 were impacted by the result of special financial items coming to € 4.8 million, involved in the capital gain ensuing from the transfer of the company Medea.

Net profits thus rose by 14.5%, or € 27.9 million, going from € 192.8 million at 30th September 2017 to € 220.7 million at the same date in 2018.

+14.5%
Net profits

Profits pertaining to the Group amounted to € 208.7 million, up € 25.8 million over the figure seen at the end of the first nine months of 2017.

Net profits post minorities (mn€)



208.7
million euro
Net profits post minorities
(+14.1%)

1.01.02

Analysis of the Group's financial structure and investments

What follows in an analysis of trends in the Group's net invested capital and sources of financing for the period ended 30th September 2018.

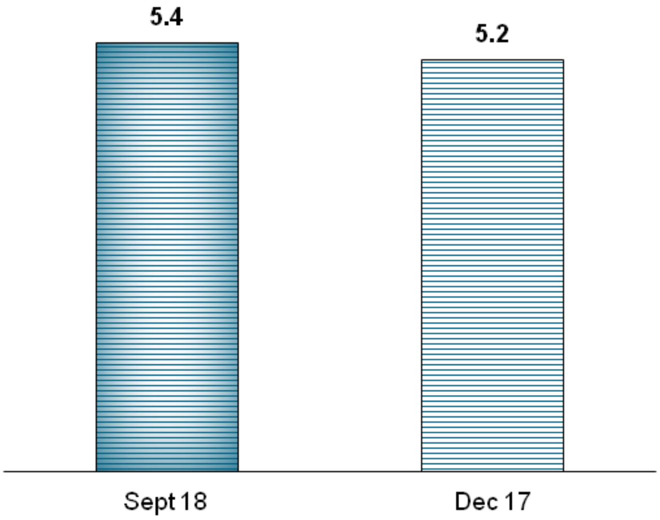
Group solidity increases

Invested capital and sources of financing (mn€)	Sept 18	Inc%	Dec 17	Inc.%	Abs. Change	% Change
Net non-current assets	5,837.0	107.2%	5,780.6	110.5%	+56.4	+1.0%
Net working capital	186.4	3.4%	23.2	0.4%	+163.2	+703.4%
(Provisions)	(578.5)	-10.6%	(574.8)	-11.0%	-3.7	-0.6%
Net invested capital	**5,444.9**	**100.0%**	**5,229.0**	**100.0%**	**+215.9**	**+4.1%**
Equity	(2,802.9)	51.5%	(2,706.0)	51.7%	-96.9	-3.6%
Long-term borrowings	(2,841.9)	52.2%	(2,735.4)	52.3%	-106.5	-3.9%
Net current financial debt	199.9	-3.7%	212.4	-4.1%	-12.5	-5.9%
Net debt	(2,642.0)	48.5%	(2,523.0)	48.3%	-119.0	-4.7%
Total sources of financing	**(5,444.9)**	**-100.0%**	**(5,229.0)**	**100.0%**	**-215.9**	**-4.1%**

At 30th September 2018, net invested capital (NIC) amounted to € 5,444.9 million, with a 4.1% increase over the € 5,229.0 recorded in December 2017. This higher amount is largely due to the increase in net working capital ensuing from seasonal factors typical of the first nine months of each year, in which an increase in surplus generally occurs, caused by purchasing gas during the summer in order to prepare for the upcoming winter sales. The results in terms of net working capital were furthermore influenced by the higher volumes of electricity and gas sold during 2018.

The change in invested capital was also effected, albeit to a lesser degree, by an increase in net non-current assets due to the acquisition of holdings in Blu Ranton Srl and Sangroservizi Srl and the merger of Megas Net into the company Marche Multiservizi Spa.

Net invested capital (bn€)



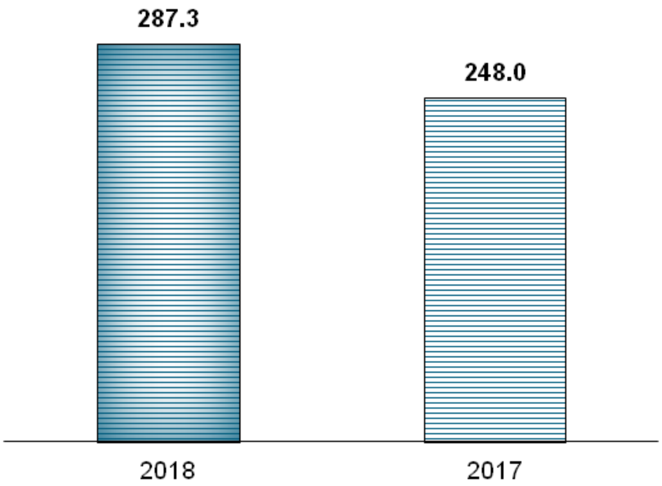
5.4
billion euro Net invested capital

At 30th September 2018, Group investments amounted to € 287.3 million, in addition to € 11.0 million in capital grants, € 6.4 million of which consisted in FoNI (Fondo Nuovi Investimenti) investments, as foreseen by the national tariff method for the integrated water service, falling by € 18.6 million compared to the same period in the previous year. Including capital grants, overall investments reached € 298.3 million.

Net investments rose by € 39.3 million, going from € 248.0 million in September 2017 to € 287.3 million at the end of the third quarter of 2018.

Net investments rise by € 39.3 million

Total net investments (mn€)



287.3
million euro Net investments (+39.3 million)

The following table shows a breakdown by sector, with separate mention of capital grants:

Total investments (mn€)	**Sept 18**	**Sept 17**	**Abs. Change**	**% Change**
Gas area	70.2	67.3	+2.9	+4.3%
Electricity area	15.2	16.1	-0.9	-5.6%
Integrated water cycle area	107.2	103.5	+3.7	+3.6%
Waste management area	45.1	36.0	+9.1	+25.3%
Other services area	11.5	13.3	-1.8	-13.5%
Headquarters	47.4	40.8	+6.6	+16.2%
Total operating investments	**296.6**	**277.1**	**+19.5**	**+7.0%**
Total financial investments	1.7	0.5	+1.2	+240.0%
Total gross investments	**298.3**	**277.6**	**+20.7**	**+7.5%**
Capital grants	11.0	29.6	-18.6	-62.8%
of which FoNI (Fondo Nuovi Investimenti)	6.4	4.3	+2.1	+48.8%
Total net investments	**287.3**	**248.0**	**+39.3**	**+15.8%**

Strong commitment continues to be seen in operating investments in plants and infrastructures

The Group's operating investments, including capital grants, came to € 296.6 million, up 7.0% over the previous year, and mainly involved interventions on plants, networks and infrastructures. This was accompanied by regulatory upgrading involving above all gas distribution, with a large-scale metre substitution, and the purification and sewerage areas.

Remarks on investments in each single area are included in the analysis by business area.

At Group headquarters, investments were made on corporate buildings, IT systems and the vehicle fleet, as well as laboratories and remote control structures. Overall, structural investments increased by € 6.6 million over the same period in the previous year.

€ 578.5 million: provisions

In the first nine months of 2018, provisions amounted to € 578.5 million, with a slight increase compared to the figure seen at the end of the previous year. Provisions for risks were affected by a restatement, towards amortisation provisions, of roughly € 9.5 million, corresponding to the amount reserved for the restoration of third-party assets fund linked to the networks owned by Megas Net, now acquired by Group company Marche Multiservizi Spa.

€ 2.8 billion euro: equity

Equity rose from € 2,706.0 million in 2017 to € 2,802.9 million at 30 September 2018, benefitting the Group's financial structure. This change reflects the positive result for the period, coming to € 220.7 million, which financed a € 150.4 million dividend payment.

1.01.03
Analysis of net cash (net borrowings)

An breakdown of net financial debt is shown in the following table:

A solid financial position

mn€		Sept 18	Dec 17
a	**Cash and cash equivalents**	**518.4**	**450.5**
b	**Other current financial receivables**	**44.3**	**41.5**
	Current bank debt	(180.0)	(187.0)
	Current part of bank borrowings	(62.9)	(55.3)
	Other current financial liabilities	(118.1)	(35.3)
	Finance lease payments maturing within 12 months	(1.8)	(2.0)
c	**Current financial debt**	**(362.8)**	**(279.6)**
d=a+b+c	**Net current financial debt**	**199.8**	**212.4**
	Non-current bank debt and bonds issued	(2,929.6)	(2,825.3)
	Other non-current financial liabilities	(20.8)	(21.4)
	Finance lease payments maturing after 12 months	(12.6)	(13.9)
e	**Non-current financial debt**	**(2,963.1)**	**(2,860.6)**
f=d+e	**Net financial position - Consob communication no. 15519/2006**	**(2,763.2)**	**(2,648.3)**
g	**Non-current financial receivables**	**121.2**	**125.2**
h=f+g	**Net debt**	**(2,642.0)**	**(2,523.0)**

The overall amount of net financial debt came to € 2,642.0 million. The Group's financial structure at 30th September 2018 show current debt amounting to € 362.8 million, of which € 62.9 million in bank loans reaching maturity within the year and € 298.1 million in current bank debt. The latter mainly consists of usage of current credit lines, coming to roughly € 120 million, and accruals for passive interest on financing, coming to € 59.8 million. The amount of non-current bank debt rose over the previous year, following the use made in June of the EIB financing line stipulated at the beginning of the year. Medium- and long-term debt is largely made up of bonds issued on the European market and listed on the Luxembourg Stock Exchange (76.6% of the total), with repayment at maturity in a lump sum.
The total debt shows an average time to maturity of approximately seven years, with 63% maturing after over five years.

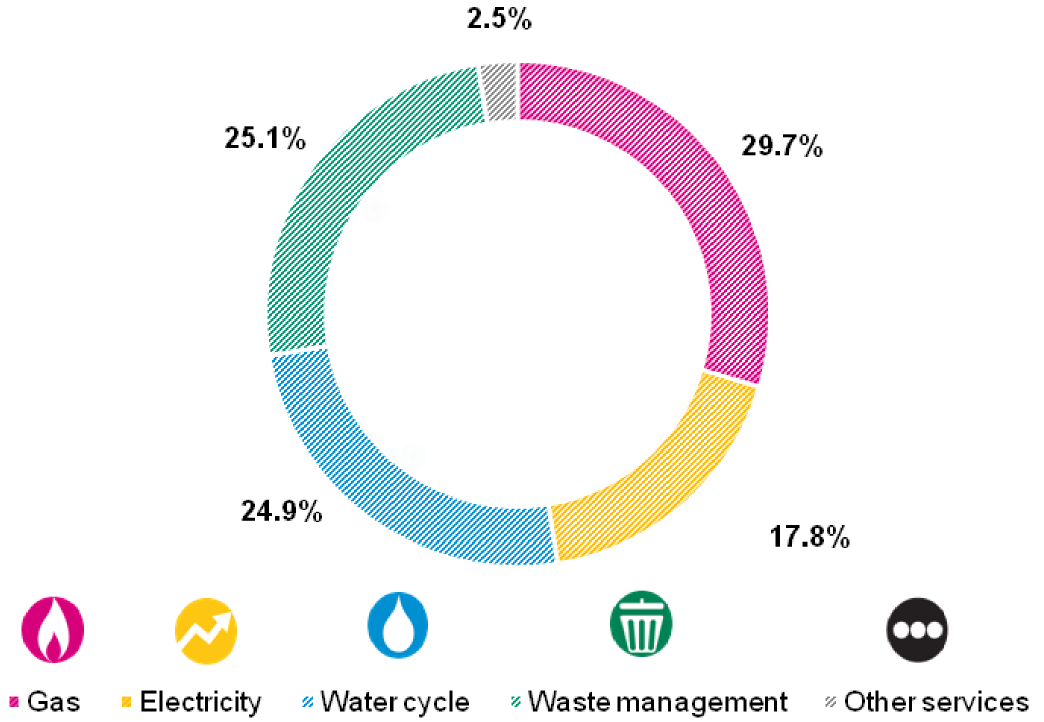
Net financial debt went from € 2,523.0 million in 2017 to € 2,642.0 million in September 2018. Note that in June 2018 dividends amounting to € 150.4 million were paid.

1.02
Analysis by business area

A multi-business strategy

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, district heating and heat management; the electricity area, which covers services in electricity generation, 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 and recovery; the other services area, which covers services in public lighting, telecommunications and other minor services.

Ebitda September 2018



The Group's various areas contribute to overall Ebitda with a balanced mix, reflecting its multi-business strategy

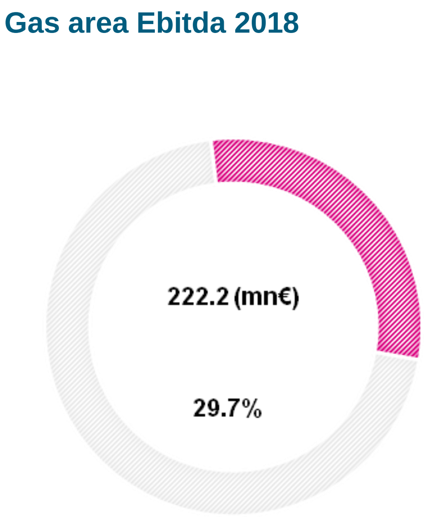
The Group's income statements include corporate headquarter costs and account for intercompany transactions for at arm's length.

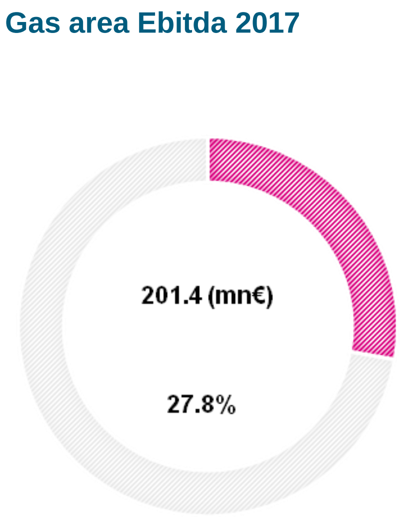
The following analyses of the single business areas take into account all increased revenues and costs, having no impact on Ebitda, related to the application of IFRIC 12. The business areas affected by this accounting principle are: natural gas distribution services, electricity distribution services, all integrated water cycle services and public lighting services.

1.02.01
Gas

The gas area saw significant growth in the first nine months of 2018 compared to the same period of the previous year, in terms of both Ebitda and volumes sold. This result was achieved thanks to the colder temperatures seen during the winter months, commercial development and higher income for distribution services.

Ebitda grows





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

(mn€)	Sept 18	Sept 17	Absolute change	% change
Area Ebitda	**222.2**	**201.4**	**+20.8**	**+10.3%**
Group Ebitda	748.6	724.7	+23.9	+3.3%
Percentage weight	29.7%	27.8%	+1.9 p.p.	

Increase in Ebitda: +10.3%

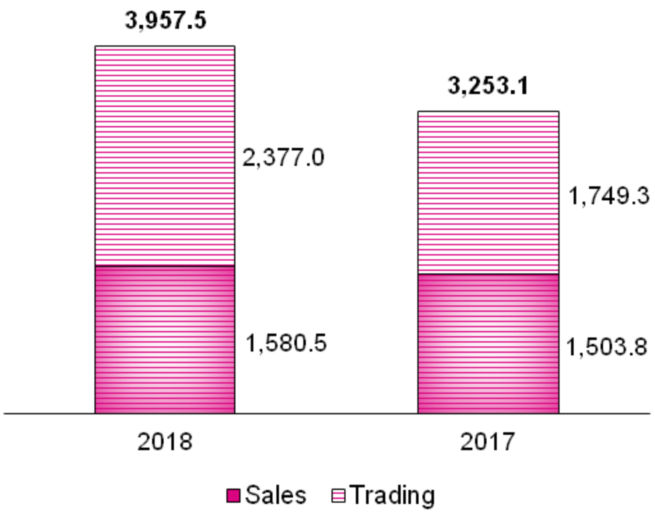
The number of gas customers rose by 21.8 thousand, or 1.6%, over 30th September 2017. The entry of the companies Blu Ranton Srl and Verducci Servizi Srl within the Group's consolidate scope contributed with 19.9 thousand customers, while the remaining growth was created by marketing initiatives, and by maintaining and developing the customer base.

Customers (k)

1.4
million gas customers

Overall volumes of gas sold increased by 704.5 million m^3, or 21.7%, going from 3,253.1 million m^3 at 30th September 2017 to 3,957.5 million m^3 at the same date in 2018, a period in which degree days (*) rose by 8% compared to the previous period. Trading volumes showed growth coming to 627.7 million m^3 (19.3% of total volumes) owing to greater activity abroad, in particular on the TTF. Volumes sold to end customers increased by 5.1% over the first three quarters of 2017, equivalent to 76.7 million m^3, thanks to the colder winter temperatures seen in 2018 and the increased customer base, which accounted for roughly 61.0 million m^3 and the contribution coming from the companies Blu Ranton Srl and Verducci Servizi Srl, accounting for roughly 15.7 million m^3.

Volumes sold (mn m^3)



+21.7%
growth in volumes sold

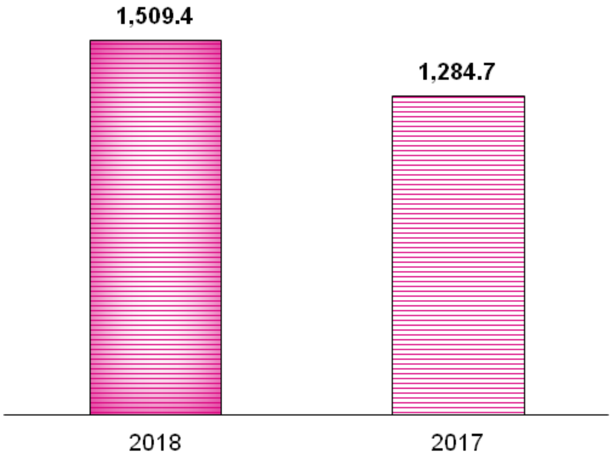
The following table summarises operating results for the gas area:

Income statement (mn€)	Sept 18	Inc%	Sept 17	Inc.%	Abs. Change	% Change
Revenues	1,509.4		1,284.7		+224.7	+17.5%
Operating costs	(1,212.0)	-80.3%	(1,013.3)	-78.9%	+198.7	+19.6%
Personnel costs	(82.9)	-5.5%	(80.5)	-6.3%	+2.4	+3.0%
Capitalised costs	7.7	0.5%	10.5	0.8%	-2.8	-26.8%
Ebitda	**222.2**	**14.7%**	**201.4**	**15.7%**	**+20.8**	**+10.3%**

Revenues went from € 1,284.7 million in September 2017 to € 1,509.4 million at 30th September 2018, with a growth of € 224.7 million or 17.5%. The main reasons for this growth include higher revenues from trading amounting to roughly € 180 million, owing to the higher price of the raw material gas, which accounted for approximately € 34 million, the higher volumes of gas sold, coming to roughly € 26 million, and the acquisitions of Blu Ranton Srl and Verducci Servizi Srl, accounting for roughly € 9.3 million. Revenues from the foreign companies operating in Bulgaria also rose, thanks to increasing commercial development, amounting to € 2.9 million. This growth was limited by lower revenues for energy efficiency certificates amounting to approximately € 17 million, following Inter-Ministry Decree of 10 May 2018, which sets a limit on the foreseen tariff contribution and has a corresponding impact on market prices, lower revenues for the transfer of the company Medea, coming to € 5.8 million, and lower revenues for system charges coming to € 4.3 million.

(*) This unit of measurement expresses the thermal demand of a given geographical area. High figures in degree days indicate average daily temperatures lower than the conventional reference temperature, set at 20° C.

Revenues (mn€)

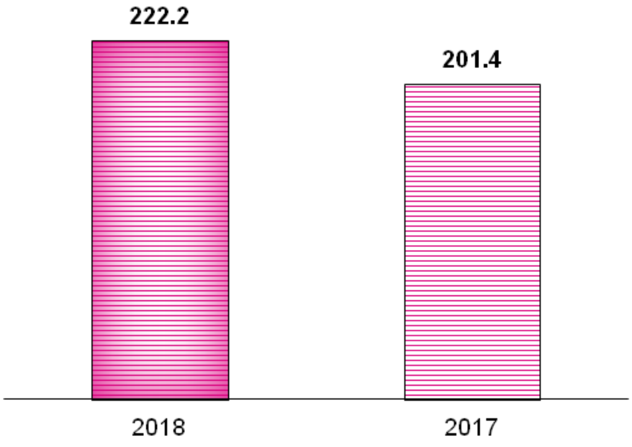


1,509.4
million euro
Revenues

The increased revenues were reflected by an even higher increase in operating costs, which went from € 1,013.3 million in September 2017 to € 1,212.0 million in the same period in 2018, thus showing an overall growth of € 198.7 million. This trend is mainly due to the higher amount of trading, higher volumes sold and the higher cost of raw materials, in spite of the lower cost per unit of energy efficiency certificates and the operational efficiencies adopted by the Group.

Ebitda rose by € 20.8 million or 10.3%, going from € 201.4 million at 30th September 2017 to € 222.2 million at 30th September 2018, thanks to higher volumes and income for sales, higher income for trading, the activities in Bulgaria and higher incentives for safety in gas distribution networks.

Ebitda (mn€)

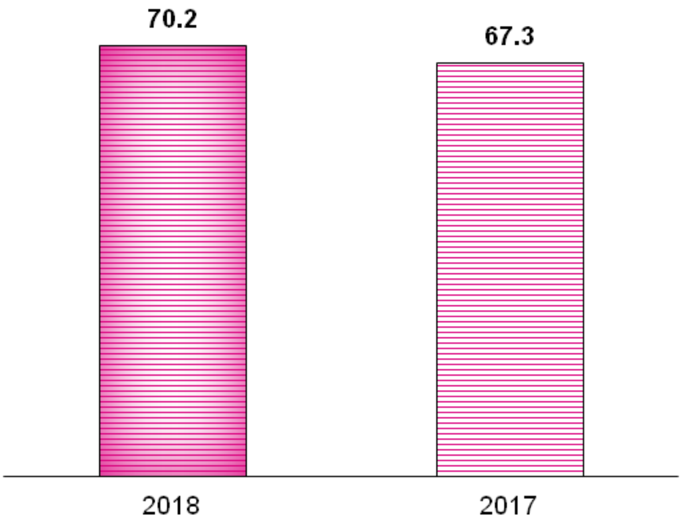


222.2
million euro
Ebitda

In the third quarter of 2018, net investments in the gas area amounted to € 70.2 million, up € 2.9 million over the same period in the previous year. A € 1.8 million increase was seen in gas distribution, mainly due to higher non-recurring maintenance on networks and plants. Requests for new connections increased slightly compared to the third quarter of the previous year.

Investments rose in heat management and dropped in district heating services, mainly as an effect of the significant work done on the Barca district heating plant in Bologna the previous year, showing an overall rise of € 1.0 million compared to 2017. New connections for district heating increased slightly compared to the same period of the previous year.

Net investments gas (mn€)



70.2
million euro
Net investments gas

Details of operating investments in the gas area are as follows:

Gas (mn€)	Sept 18	Sept 17	Abs. Change	% Change
Networks and plants	55.9	54.1	+1.8	+3.3%
DH/Heat management	14.3	13.3	+1.0	+7.5%
Total gas gross	**70.2**	**67.3**	**+2.9**	**+4.3%**
Capital grants	0.0	0.0	+0.0	+0.0%
Total gas net	**70.2**	**67.3**	**+2.9**	**+4.3%**

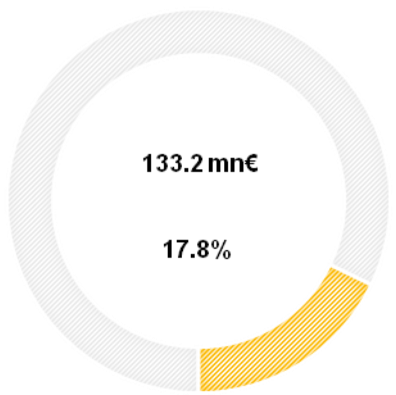
1.02.02

Electricity

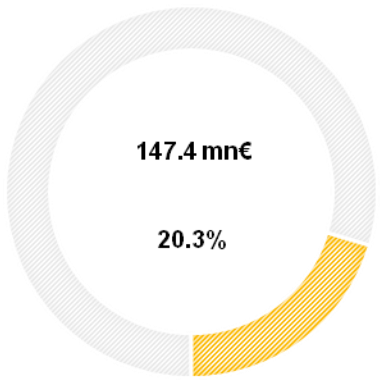
Ebitda falls

Ebitda for the electricity area decreased compared to the same period in the previous year, on account of both the current phase of maintenance on a power plant held by the Group and the effect of new regulations concerning imbalances.

Electricity area Ebitda 2018



Electricity area Ebitda 2017



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

Decrease in Ebitda: -9.6%

(mn€)	Spet 18	Sept 17	Abs. Change	% Change
Area Ebitda	**133.2**	**147.4**	**-14.2**	**-9.6%**
Group Ebitda	748.6	724.7	+23.9	+3.3%
Percentage w eight	17.8%	20.3%	-2.5 p.p.	

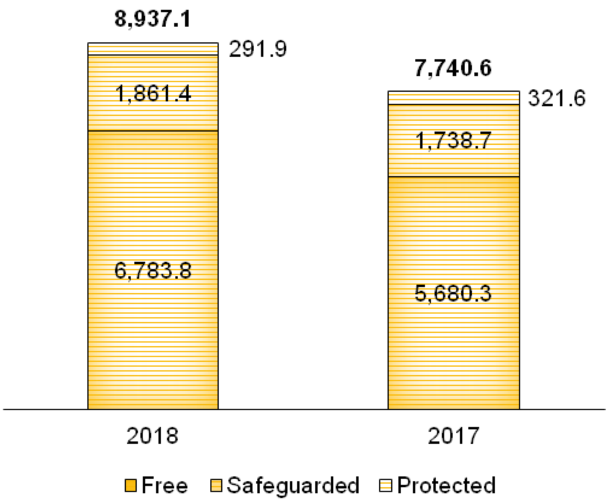
The number of electricity customers is equivalent to 1.0 million supply points, rising by 7.8% (74.7 thousand) compared to 30th September 2017. This significant increase was due to both free market activities, amounting to 15.6% of the total, as a result of the reinforced marketing operations introduced, in particular in regions of central Italy, and an enlargement of the customer base achieved thanks to the new protected customers in the Municipality of Gorizia, coming to roughly 13 thousand customers.

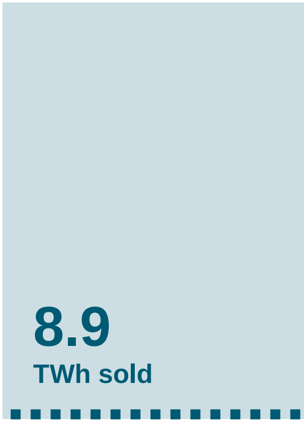
Customers (k)

1.0
million electricity customers

Volumes of electricity sold went from 7,740.6 GWh at 30th September 2017 to 8,937.1 GWh at 30th September 2018, with an overall increase amounting to 15.5%, equivalent to 1,196.5 GWh. Volumes sold on the free market increased by 14.3% of this total growth, with safeguarded volumes accounting for the remaining 1.6%.

Volumes sold (GWh)





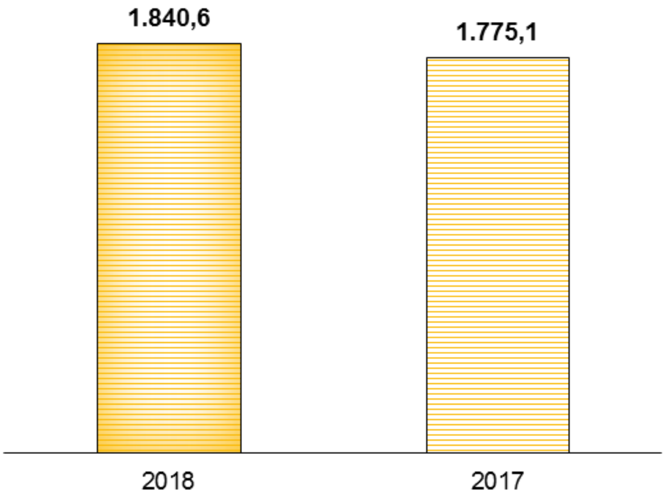
The following table summarises operating results for the area:

Income statement (mn€)	Sept 18	Inc%	Sept 17	Inc.%	Abs. Change	% Change
Revenues	**1,840.6**		1,775.1		+65.5	+3.7%
Operating costs	**(1,682.4)**	-91.4%	(1,602.3)	-90.3%	+80.1	+5.0%
Personnel costs	**(33.1)**	-1.8%	(33.3)	-1.9%	-0.2	-0.6%
Capitalised costs	**8.1**	0.4%	7.9	0.4%	+0.2	+2.5%
Ebitda	**133.2**	**7.2%**	**147.4**	**8.3%**	**-14.2**	**-9.6%**

Ebitda drops by € 14.2 million

Revenues rose by 3.7%, going from € 1,775.1 million in September 2017 to € 1,840.6 million in the same period in 2018. The main reasons underlying this growth are an increase in volumes sold, which created higher revenues amounting to roughly € 106 million, higher revenues for both transmission outside the grid and system charges, coming to € 87 million, with no change in costs, higher revenues for third-party commissions and higher revenues for the regulated distribution service. Partially offsetting this trend, mention must go to lower revenues in trading amounting to roughly € 87 million, a lower price of raw materials coming to approximately € 21 million and lower revenues from electricity generation € 25 million, involving both maintenance on the Teverola plant and changes in regulations on imbalances.

Revenues (mn€)

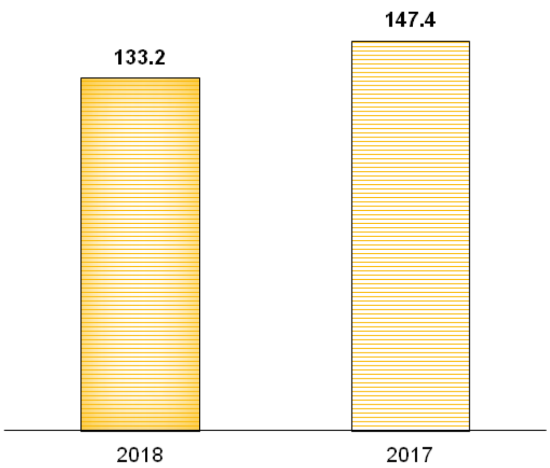


1,840.6
million euro
Revenues

The increased revenues were more than proportionally reflected by a rise in operating costs, which went from € 1,602.3 million in the first three quarters of 2017 to € 1,682.4 million in the same period of 2018, thus recording an overall increase amounting to € 80.1 million. This trend is mainly due to the higher volumes sold and the higher system charges, in spite of the lower price of raw materials and the lower amount of electricity production.

At 30th September 2018, Ebitda dropped by € 14.2 million or 9.6%, going from € 147.5 million in 2017 to € 133.2 million at the same date in 2018, owing to lower income from electricity production as explained above, despite the higher income from volumes sold in the safeguarded market and higher revenues from distribution services.

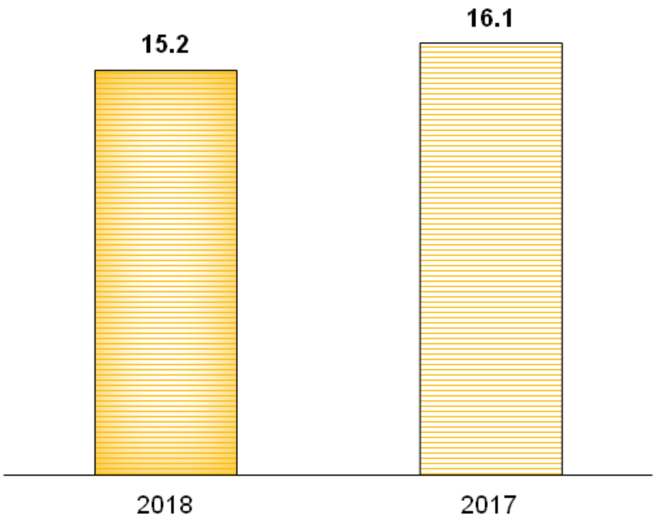
Ebitda (mn€)

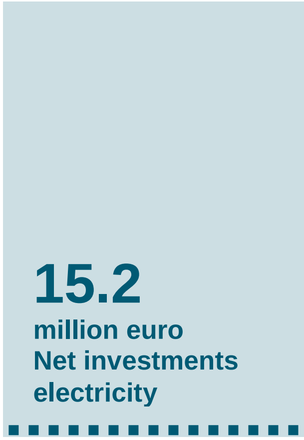


133.2
million euro
Ebitda

Investments made in the electricity area during the first nine months of 2018 amounted to € 15.2 million, with a slight drop compared to the € 16.1 million in the same period of the previous year.
The interventions mainly concerned non-recurring maintenance on plants and distribution networks in the Modena, Imola, Trieste and Gorizia areas.
Compared to the first three quarters of the previous year, a lower amount of network extensions and lesser non-recurring maintenance on plants and networks were seen.
Requests for new connections also fell compared to September 2017.

Net investments electricity (mn€)





Details of operating investments in the electricity area are as follows:

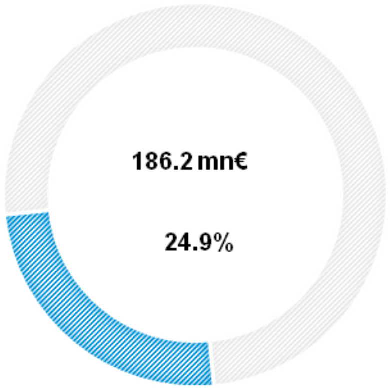
Electricity (mn€)	Sept 18	Sept 17	Abs. Change	% Change
Networks and plants	15.2	16.1	-0.9	-5.6%
Total electricity gross	**15.2**	**16.1**	**-0.9**	**-5.6%**
Capital grants	0.0	0.0	+0.0	+0.0%
Total electricity net	**15.2**	**16.1**	**-0.9**	**-5.6%**

1.02.03
Integrated water cycle

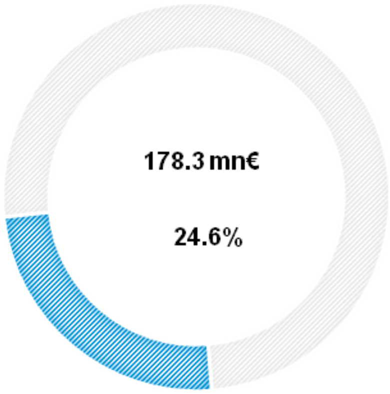
Growing results

At the end of the first three quarters of 2018, the integrated water cycle area recorded a € 7.9 million increase in Ebitda, corresponding to 4.4%. As regards regulations, note that 2018 is the third year in which the tariffary method defined by the Authority for the period 2016-2019 (resolution 664/2015) is applied, and that for both 2018 and 2017 the revenue covering the underlying cost of amortisation related to investments made is recognized on an accrual basis.

Water cycle Ebitda 2018



Water cycle Ebitda 2017



Growth in Ebitda: +4.4%

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

(mn€)	Sept 18	Sept 17	Abs. Change	% Change
Area Ebitda	**186.2**	**178.3**	**+7.9**	**+4.4%**
Group Ebitda	748.6	724.7	+23.9	+3.3%
Percentage weight	24.9%	24.6%	+0.3 p.p.	

The number of water customers settled at 1.5 million, rising by 5.3 thousand or 0.4% over the first nine months of 2017, confirming the moderate trend towards organic growth in the areas served by the Group, mainly in the Emilia-Romagna region managed by Hera Spa.

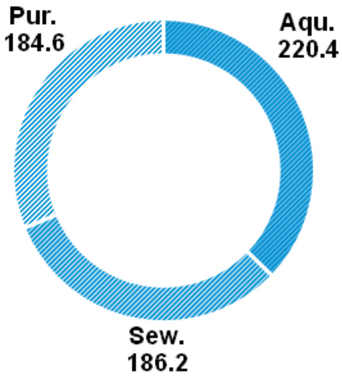
Customers (k)

1.5
million integrated water cycle customers

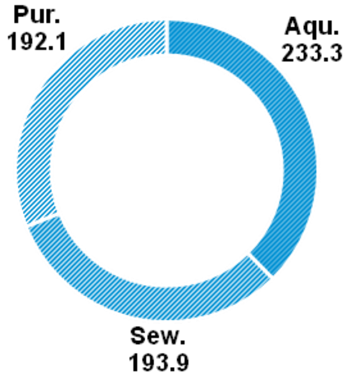
The main quantitative indicators of the area are as follows:

220.4 million m^3 managed in the aqueduct

Quantity managed 2018 (mn m^3)



Quantity managed 2017 (mn m^3)



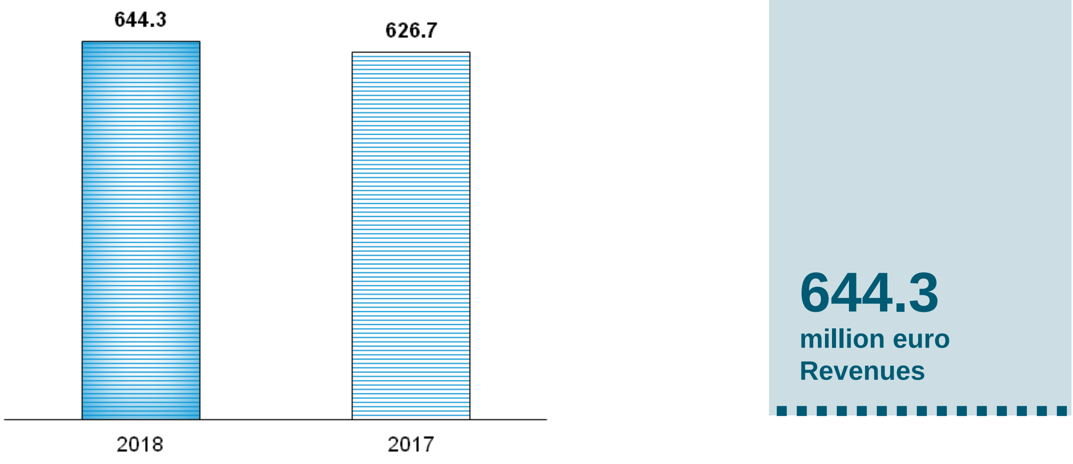
Volumes dispensed through the aqueduct showed a 12.9 million m^3 drop, equivalent to 5.5%, mainly linked to seasonal variations seen in the first nine months of 2018, consisting in a larger amount of rainfall and snowfall than occurred in the same period of the previous year. One must recall that 2017 was defined as the driest year in the last two centuries, with nine months out of twelve showing below average precipitation, which fell by 30% in total, and temperatures that ranked it as the fourth hottest year on record. Furthermore, decreases were seen in the amount managed in sewerage (roughly 4.0%) and purification (roughly 3.9%) compared to the quantities recorded at 30th September 2017, as a consequence of the lower volumes distributed. The latter, following the Authority's resolution 664/2015, are an indicator of activity in the areas in which the Group operates and are subject to equalisation owing to legislation that calls for regulated revenues to be recognised independently from volumes distributed.

An overview of operating results for the water cycle area is provided in the table below:

Income statement (mn€)	Sept 18	Inc%	Sept 17	Inc.%	Abs. Change	% Change
Revenues	644.3		626.7		+17.6	+2.8%
Operating costs	(329.7)	-51.2%	(319.9)	-51.0%	+9.8	+3.1%
Personnel costs	(133.1)	-20.7%	(132.2)	-21.1%	+0.9	+0.7%
Capitalised costs	4.6	0.7%	3.6	0.6%	+1.0	+27.6%
Ebitda	**186.2**	**28.9%**	**178.3**	**28.4%**	**+7.9**	**+4.4%**

Revenues in the water cycle area showed a € 17.6 million increase, equivalent to 2.8%. This result is due to higher revenues for dispensing amounting to roughly € 2.1 million, as an overall effect of the tariffs established by the Authority for 2016-2019, the recognition of bonuses for contract quality, ensuing from a commitment towards higher standards than those set by the Authority, and the launch of the new Servola purifier. Furthermore, higher revenues were seen involving subcontracted works and service concession arrangements implemented in the first three quarters of 2018, amounting to roughly € 14 million.

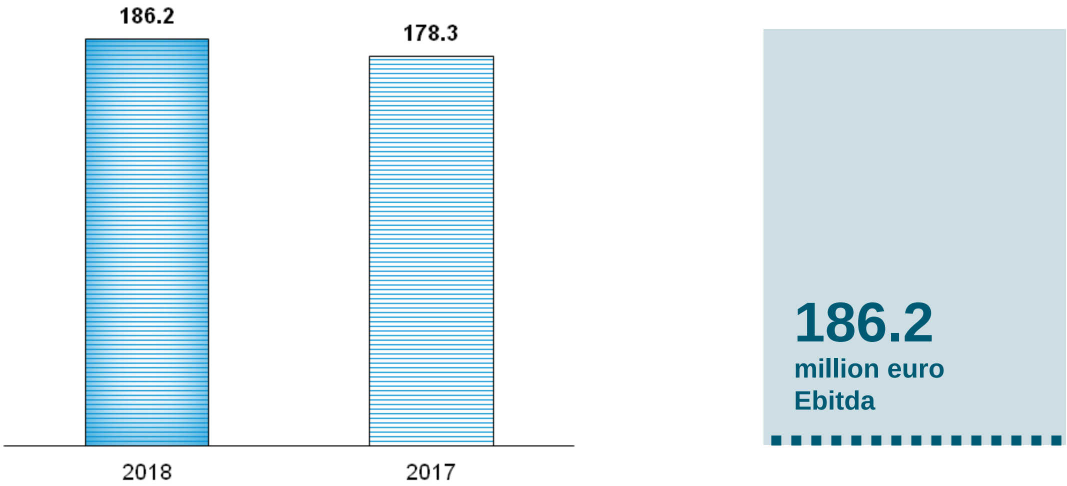
Revenues (mn€)



Operating costs increased by € 9.8 million or 3.1% overall. Note the higher costs for subcontracted works and Ifric 12 amounting to € 14.0 million overall. This rise was mitigated by lower costs tied to the raw material water, amounting to roughly € 4.0 million, and lower operating costs for network and plant management, coming to approximately € 2.0 million.

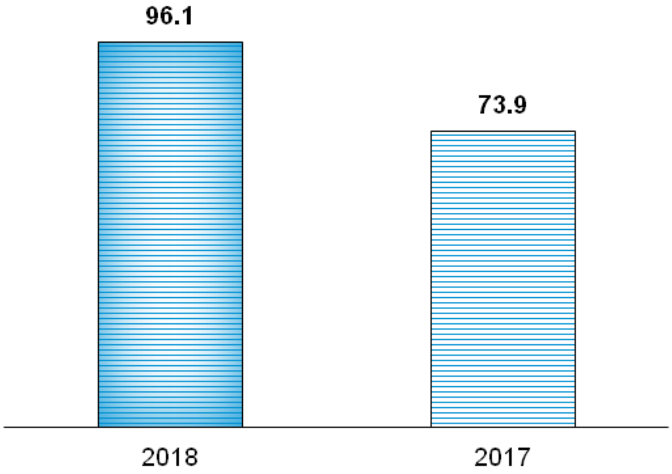
Ebitda grew by € 7.9 million or 4.4%, going from € 178.3 million in September 2017 to € 186.2 million in the same month in 2018, mainly due to higher revenues from dispensing, operating efficiencies and lower costs for raw materials related to the 2017 water emergency.

Ebitda (mn€)



In the third quarter of 2018, net investments in the integrated water cycle area amounted to € 96.1 million, up € 22.2 million over the same period in the previous year. Including the amount of capital grants received, which fell by € 18.6 million, the investments made increased by € 3.7 million and came to € 107.2 million, compared to the € 103.5 million seen in the third quarter of the previous year.
Investments mainly involved extensions, reclamations and network and plant upgrading, in addition to regulatory upgrades involving above all purification and sewerage.
Investments were made for a total of € 55.0 million in the aqueduct, € 35.1 million in sewerage and € 17.1 million in purification.

Net investments water cycle (mn€)



96.1
million euro Net investments water cycle (+22.2 million)

The more significant works include: in the aqueduct, upgrading interconnections in the Modena area water system, interventions aimed at upgrading elevated water tanks and higher programmed maintenance in the Padua and Trieste areas; in sewerage, continued progress was made in the important works for the Rimini Seawater Protection Plan, in addition to redevelopment of the sewerage network in other areas; in purification, the lower investments made compared to the previous year were due to the significant work done in upgrading the Servola purifier in the area served by the AcegasApsAmga Group, carried out during the previous year.
Requests for new water and sewerage connections remained stable.
Capital grants amounting to € 11.0 million included € 6.4 million deriving from the tariff component called for by the New Investments Fund (FoNI) tariffary method and fell by € 18.6 million compared to the previous year, mainly due to the portion concerning work done on the Servola purifier.
Details of operating investments in the integrated water cycle area are as follows:

Integrated water cycle (mn€)	Sept 18	Sept 17	Abs. Change	% Change
Aqueduct	55.0	42.2	+12.8	+30.3%
Purification	17.1	36.4	-19.3	-53.0%
Sewerage	35.1	24.9	+10.2	+41.0%
Total integrated water cycle gross	**107.2**	**103.5**	**+3.7**	**+3.6%**
Capital grants	11.0	29.6	-18.6	-62.8%
of which FoNI (Fondo Nuovi Investimenti)	*6.4*	*4.3*	+2.1	+48.8%
Total integrated water cycle net	**96.1**	**73.9**	**+22.2**	**+30.0%**

Significant operating investments made in the aqueduct, sewerage and purification

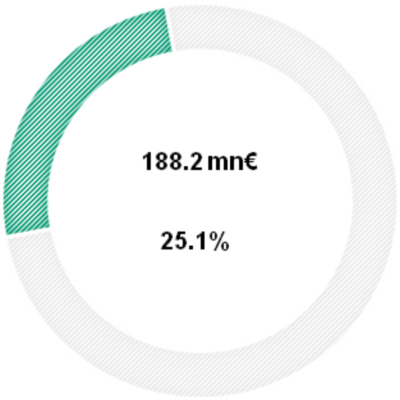
1.02.04

Waste management

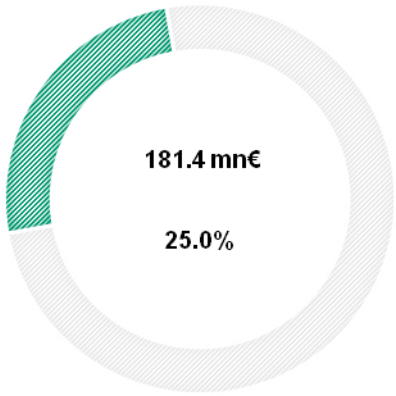
Ebitda grows

After the first nine months of 2018, the waste management area accounted for 25.1% of Group Ebitda, with an area Ebitda increasing over the same period in the previous year. As regards waste treatment, initiatives continued that were aimed at recovering material and increasing energy efficiency, in particular launching the Sant'Agata Bolognese biomethane production plant and proceeding with the full activity and growth of Aliplast, which represents the key element able to bring a circular economy to full completion. Attention towards a sustainable and efficient development of the entire path followed by waste in the areas served by the Group was confirmed by a higher level of sorted waste, which settled at 61%, as will be discussed below. Lastly, 2018 saw a confirmation of the Group's commitment to reinforcing its position as market leader through both developing precise and focused marketing initiatives intended to broaden its customer portfolio and by maintaining continuous attention towards calls for tenders.

Waste management Ebitda 2018



Waste management Ebitda 2017



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

Rise in Ebitda: +3.7%

(mn€)	Sept 18	Sept 17	Abs. Change	% Change
Area Ebitda	**188.2**	**181.4**	**+6.8**	**+3.7%**
Group Ebitda	748.6	724.7	+23.9	+3.3%
Percentage weight	25.1%	25.0%	+0.1 p.p.	

Volumes marketed and treated by the Group in the first nine months of 2018 are as follows:

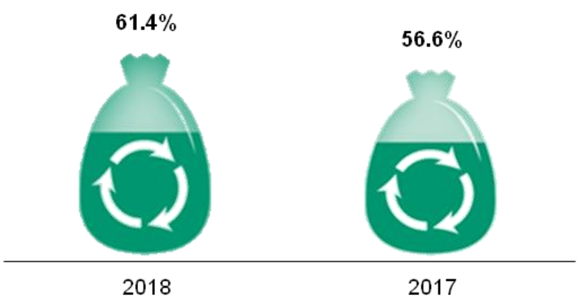
Quantitative data (mgl/t)	Sept 18	Sept 17	Abs. Change	% Change
Municipal waste	1,758.8	1,722.8	+36.0	+2.1%
Commercial waste	1,641.7	1,714.8	-73.1	-4.3%
Waste marketed	**3,400.5**	**3,437.7**	**-37.2**	**-1.1%**
Plant by-products	2,204.0	1,631.0	+573.0	+35.1%
Waste treated by type	**5,604.6**	**5,068.6**	**+536.0**	**+10.6%**

Market waste up: +3.6%

As of 2018, municipal waste also includes some types of waste previously classified as commercial waste. The data for municipal and commercial waste in the first half of 2017 has been restated so as to reflect the classification used for the current year.
An analysis of the volumes treated shows a decrease in waste marketed, due to commercial waste, which fell by 4.3%, offset by an increase in municipal waste. The fall in volumes of commercial waste resulted from a drop in intermediation operations.
Municipal waste rose, as did plant by-products thanks to the higher production of leachate in landfills, caused by the higher amount of rainfall seen in the first nine months of 2018 compared to the same period in 2017.

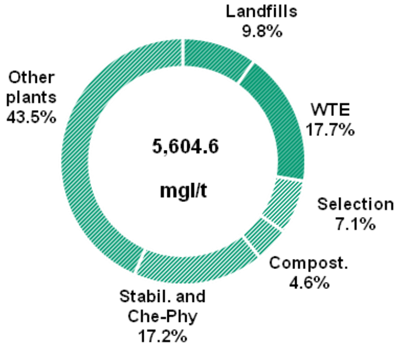
Sorted urban waste showed further progress, going from 56.6% at 30th September 2017 to 61.4% at the same date in the current year. At the end of the first nine months of 2018, sorted waste increased by 4.7% in areas served by Hera Spa and by 10.7% in areas served by Marche Multiservizi Spa, while in the Triveneto region growth settled at 1.2%.

Sorted waste (%)

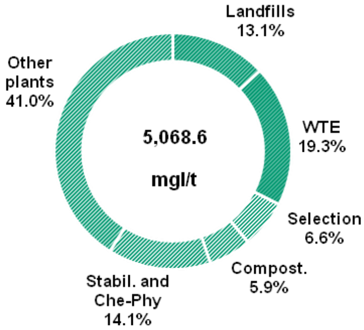


+4.8 p.p.
sorted waste

Waste disposed of by type of plant 2018



Waste disposed of by type of plant 2017



Decrease in landfill use

Quantitative data (mgl/t)	Sept 18	Sept 17	Abs. Change	% Change
Landfills	550.9	665.3	-114.4	-17.2%
Waste-to-energy	993.9	977.8	+16.1	+1.6%
Selection plants and other	398.4	335.2	+63.2	+18.9%
Composting and stabilisation plants	256.7	296.7	-40.0	-13.5%
Stabilisation and chemical-physical plants	965.3	713.9	+251.4	+35.2%
Other plants	2,439.4	2,079.8	+359.6	+17.3%
Waste treated by plant	**5,604.6**	**5,068.6**	**+536.0**	**+10.6%**

The Hera Group operates in the entire waste cycle, with 89 plants used for municipal and special waste treatment and plastic material regeneration. The most important of these include: 10 waste to energy plants, 11 composters/digesters and 15 selecting plants.

Waste treatment showed growth coming to 10.6% over 30th September 2017. Note in particular the lower quantity in landfills, while in the chain of waste to energy plants the quantity treated was essentially in line with the previous year, showing a slight 1.6% increase. The increased quantity in selecting plants is due to the higher quantity treated, mainly in the Castiglione delle Stiviere plant. The lower quantity in composting and stabilisation plants is mainly due to planned maintenance in some plants for regulatory upgrading. The higher quantity in stabilisation and chemical-physical plants can be traced to the increase in leachate in landfills due to a rise in the amount of rainfall. Lastly, subcontracted and other plants saw advantages coming from the higher quantities treated by Waste Recycling and from an increase in by-products treated in subcontracted plants.

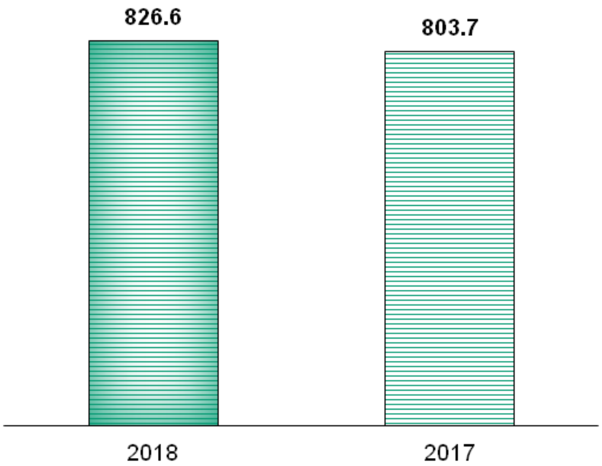
The table below summarises the area's operating results:

Ebitda rises

Income statement (mn€)	Sept 18	Inc%	Sept 17	Inc.%	Abs. Change	% Change
Revenues	826.6		803.7		+22.9	+2.8%
Operating costs	(498.0)	-60.2%	(478.9)	-59.6%	+19.1	+4.0%
Personnel costs	(146.3)	-17.7%	(148.7)	-18.5%	-2.4	-1.6%
Capitalised costs	5.8	0.7%	5.3	0.7%	+0.5	+9.5%
Ebitda	**188.2**	**22.8%**	**181.4**	**22.6%**	**+6.8**	**+3.7%**

Revenues rose by 2.8% or € 22.9 million, going from € 803.7 million at 30th September 2017 to € 826.6 million at the same date in 2018. This change is due to the positive trend seen in the price of special waste, the higher quantities dealt with by Aliplast and higher revenues for the progress made in sorted waste, which more than offset the termination of municipal waste services in 13 Forlì-area Municipalities as of 1st January 2018.

Revenues (mn€)

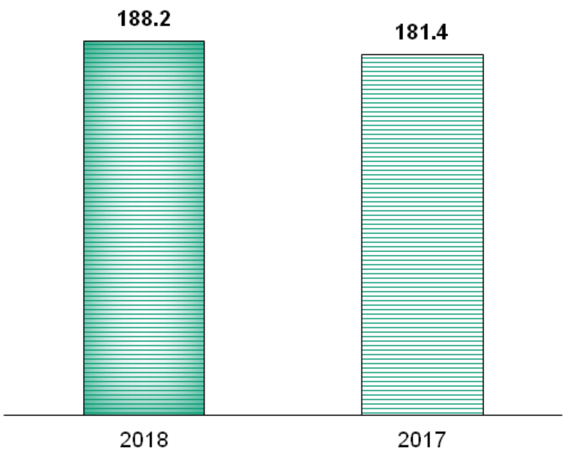


826.6
million euro Revenues

Operating costs rose by 4.0% or € 19.1 million, going from € 478.9 million in September 2017 to € 498.0 million in September 2018. This change is due to higher costs in the waste treatment business owing to increases in upgrading activities and by-product subcontracting, and in municipal waste to developing new projects for sorted waste. The trend was offset by lower costs for services and Wte plant maintenance and lower costs tied to the aforementioned Forlì area.
The cost of personnel, not including the transfer of resources for collection in the Forlì area, as mentioned above, rose by 0.6%.

Ebitda went from € 181.4 million at 30th September 2017 to € 188.2 million at the same date in 2018, thus showing growth amounting to € 6.8 million or 3.7%. This change was sustained by higher prices for special waste treatment and by lower maintenance on plants, which proved able to more than offset the exclusion of Forlì from the scope of collection and sweeping activities.

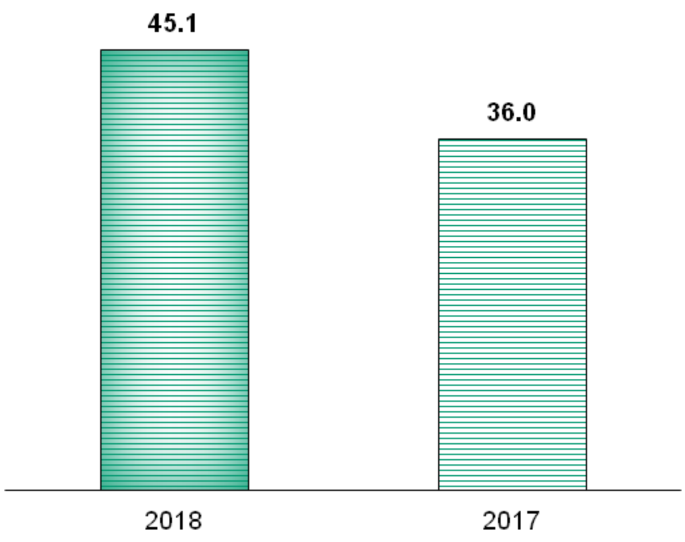
Ebitda (mn€)



188.2
million euro Ebitda

Net investments in the waste management area concerned plant maintenance and upgrading and amounted to € 45.1 million, up € 9.1 million over the third quarter of the previous year.
The composter/digester sector showed a sharp increase in investments amounting to € 10.3 million, mainly due to interventions on the Sant'Agata Bolognese composter involved in creating the biomethane plant.
The decrease in investments in landfills, coming to € 1.8 million can mainly be ascribed to the work done in 2017 towards creating the 9th sector of the Ravenna landfill and in the Tre Monti site, compared to the interventions introduced in 2018 on other plants, with a lower overall value.
The Wte plants sector saw a € 0.8 million, mainly due to work done on the Padua plant, which was not entirely offset by the less significant interventions on the Pozzilli and Rimini plants.
Increased investments in the Special waste plants sector were due to maintenance on the Ravenna plants.
The ecological islands and collection equipment sector showed higher investments coming to € 0.5 million, mainly in the areas served by Hera Spa, while the € 1.1 million decrease in the selection and recovery sector is largely explained by lower investments by the Aliplast Group, due to the significant interventions carried out the previous year on the company Alimpet Srl's Pet line, not entirely offset by higher investments made in the same sector by the company Waste Recycling Spa.

Net investments waste management (mn€)



Details of operating investments in the waste management area are as follows:

Waste management (mn€)	Sept 18	Sept 17	Abs. Change	% Change
Composting/digestors	17.8	7.5	+10.3	+137.3%
Landfills	5.4	7.2	-1.8	-25.0%
WTE	6.8	6.0	+0.8	+13.3%
RS plants	2.0	1.6	+0.4	+25.0%
Ecological islands and collection equipment	5.2	4.7	+0.5	+10.6%
Transshipment, selection and other plants	8.0	9.1	-1.1	-12.1%
Total waste management gross	**45.1**	**36.0**	**+9.1**	**+25.3%**
Capital grants	0.0	0.0	+0.0	+0.0%
Total waste managemenet net	**45.1**	**36.0**	**+9.1**	**+25.3%**

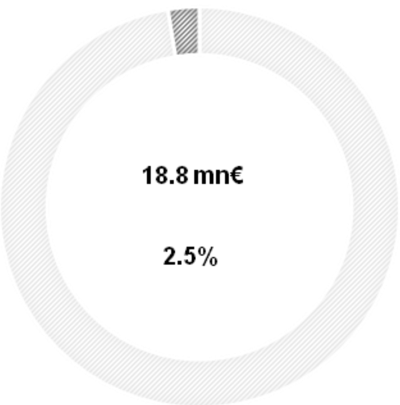
Operating investments increase

1.02.05
Other services

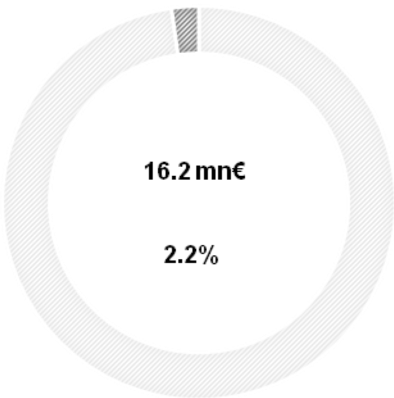
The other services area brings together all minor businesses managed by the Group, including public lighting, telecommunications and cemetery services. In the first nine months of 2018, this area's results showed a 16.0% increase over the same period in the previous year, with Ebitda going from € 16.2 million at 30th September 2017 to € 18.8 million at the same date in 2018.

Ebitda grows

Ebitda other services 2018



Ebitda other services 2017



The changes occurred in terms of Ebitda are as follows:

(mn€)	Sept 18	Sept 17	Abs. Change	% Change
Area Ebitda	**18.8**	**16.2**	**+2.6**	**+16.0%**
Group Ebitda	748.6	724.7	+23.9	+3.3%
Percentage weight	2.5%	2.2%	+0.3 p.p.	

The following table shows the area's main indicators as regards public lighting services:

Quantitative data	Sept 18	Sept 17	Abs. Change	% Change
Public lighting				
Lighting points (k)	532.8	509.2	+23.6	+4.6%
of which led	14.6%	8.8%	+5.8 p.p.	
Municipalities served	169.0	162.0	+7.0	+4.3%

532.8 thousand lighting points

An analysis of the data regarding public lighting shows a growth of 23.6 thousand lighting points and an net increase of 7 municipalities served. During the first three quarters of 2018 the Hera Group acquired roughly 29 thousand lighting points in 11 new municipalities. The most significant of these were: roughly 6 thousand lighting points in Abruzzo, roughly 4 thousand lighting points in Lombardy, roughly 8 thousand lighting points in the Triveneto region, mainly in the provinces of Udine and Venice, and a higher number of lighting points managed in the municipalities already served. The increases seen to date during the year more than offset the loss of roughly 5 thousand lighting points and 4 municipalities served, mainly in the Triveneto region, in the provinces of Padua and Gorizia. The percentage of lighting points that use led light bulbs also increased, settling at the end of the first nine months of 2018 at 14.6%, up 5.8 percentage points. This trend reflects the constant attention shown by the Group towards an increasingly efficient and sustainable management of public lighting.

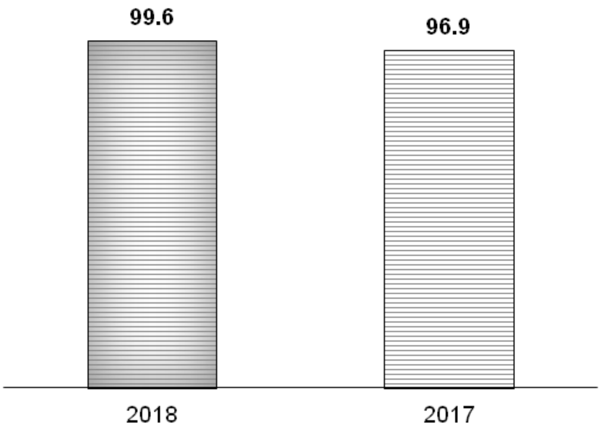
The area’s operating results are provided in the table below:

Area grows

Income statement (mn€)	Sept 18	Inc%	Sept 17	Inc.%	Abs. Change	% Change
Revenues	99.6		96.9		+2.7	+2.8%
Operating costs	(67.8)	-68.1%	(68.0)	-70.2%	-0.2	-0.3%
Personnel costs	(14.8)	-14.8%	(14.5)	-14.9%	+0.3	+2.1%
Capitalised costs	1.8	1.8%	1.9	1.9%	-0.1	-5.4%
Ebitda	**18.8**	**18.9%**	**16.2**	**16.8%**	**+2.6**	**+16.0%**

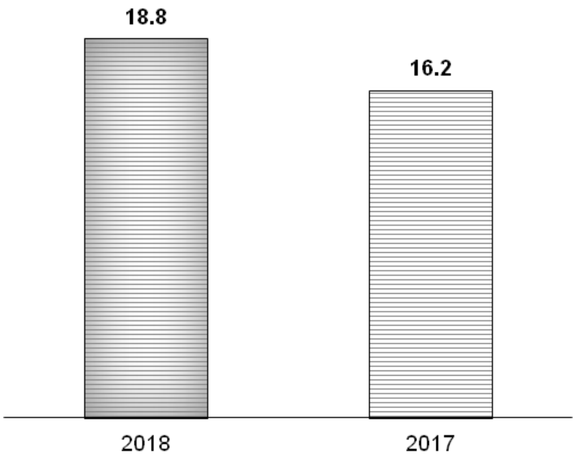
Area revenues increased over September 2017 by € 2.7 million, going from € 96.9 million to € 99.6 in September 2018. This growth is largely due to the positive contribution coming from telecommunications, whose revenues rose thanks to a higher amount of external commercial collaborations, and the contribution coming from the digitalisation and innovation processes implemented by the Hera Group, despite the drop in revenues in public lighting, more than offset by lower operating costs.

Revenues (mn€)



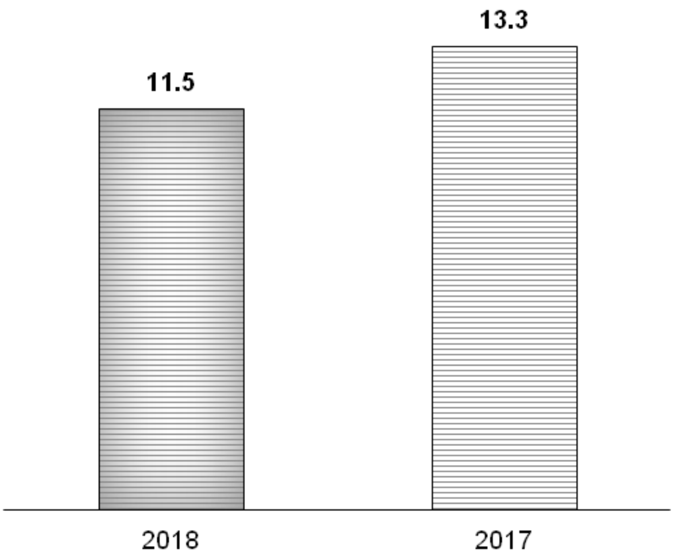
Ebitda showed a € 2.6 million increase over September 2017, due to higher income from public lighting and telecommunications services.

Ebitda (mn€)



Investments in the other services area came to € 11.5 million, falling by € 1.8 million compared to the same period in the previous year.
Investments coming to € 6.5 million were made in telecommunications, involving networks and Tlc and Idc (Internet data centre) services, down € 0.6 million compared to the third quarter of 2017, while investments amounting to € 5.0 million in the public lighting service concerned maintenance, upgrading and modernising lampposts in the areas served, showing a € 1.1 million decrease compared to the same period in the previous year.

Net investments other services (mn€)



11.5
million euro Net investments other services

Details of operating investments in the other services area are as follows:

Other Services (mn€)	Sept 18	Sept 17	Abs. Change	% Change
Tlc	6.5	7.1	-0.6	-8.5%
Public lighting and traffic lights	5.0	6.1	-1.1	-18.0%
Total other services gross	**11.5**	**13.3**	**-1.8**	**-13.5%**
Capital grants	0.0	0.0	+0.0	+0.0%
Total other services net	**11.5**	**13.3**	**-1.8**	**-13.5%**

1.03
Share performance and investor relations

Opposing trends seen on global markets due to geopolitical uncertainties

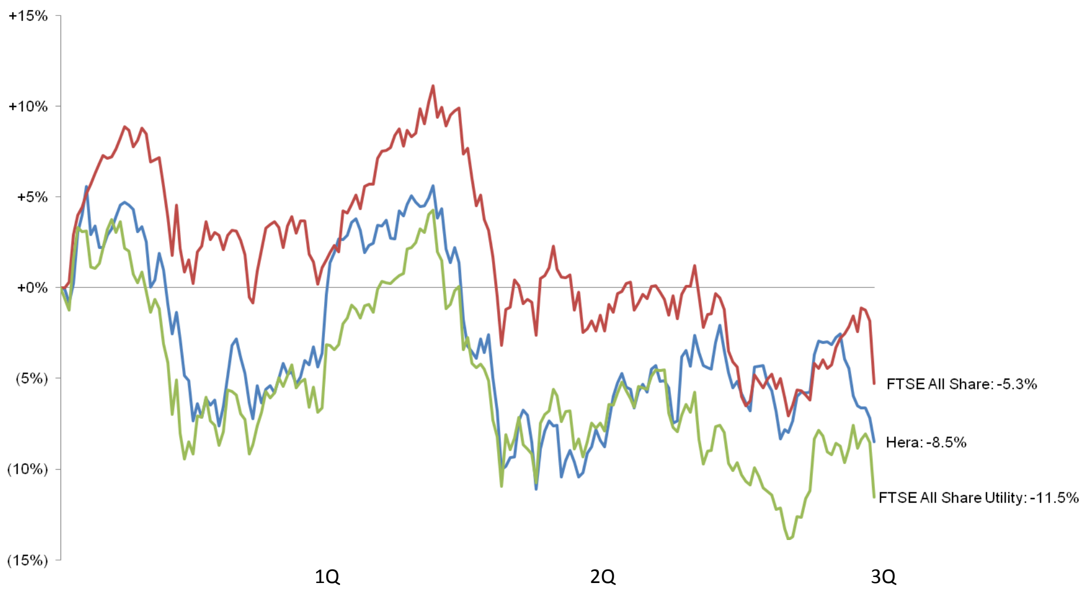
After a positive outset, that followed in the wake of the favourable conditions for investment seen in 2017, financial market trends in the first three quarters of 2018 were marked by a growing uncertainty that gradually set in due to a number of significant events. The most notable of these included the national elections in Italy, the introduction of duties on goods imported into the United States, a rise in the interest rates set by the Federal Reserve and the announcement that the ECB's Quantitative Easing program would be brought to a halt within the end of the year. In this context, American stock markets proved to be the most resilient, sustained as they were by an expansionary phase of the economic cycle and by the tax cuts introduced by the federal government; a further contribution came from the flow of capital leaving emerging markets, considered riskier in this macroeconomic phase. A different scenario was witnessed on European stock markets, which recorded negative performances: trade wars slowed down the German locomotive and elections in Italy reawakened fears hinging on the advance of populism in Europe.

Due to the reasons mentioned above, more volatile trends were seen in Italy than on other European stock markets, with investors preferring to disinvest in Italian government bonds while waiting to gain a better understanding of the new government's economic policies. Furthermore, the significant increase in the spread had repercussions on market quotations for those companies most closely tied to the national economy (such as utilities and banks).

Increase in country risk underlies utility performances

In this context, Hera stock closed the period with an official price of € 2.681, showing a trend similar to its reference sector but with a superior performance. The Group benefitted from the growth-oriented strategy included in its business plan to 2021, presented to the financial community in the months of January and February in an international road show, and from the validity of its fundamental structure, as confirmed by the annual financial report and the first-quarter and first-half results.

3Q Hera stock, local utility sector and Italian market performance



On 18th June, in line with the indications contained in the business plan, Hera paid a dividend coming to 9.5 cents per share, the sixteenth in a series of uninterrupted increase since being listed.

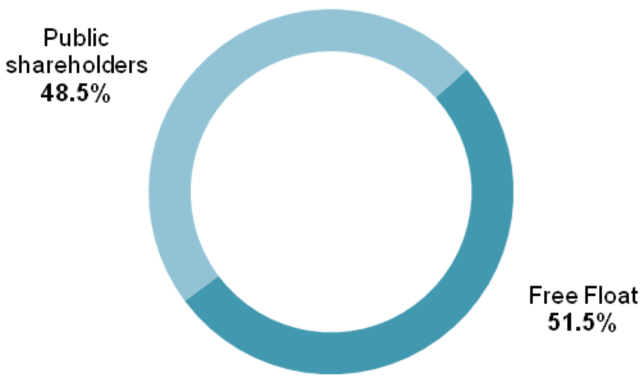
euro	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Dps	0.04	0.05	0.06	0.07	0.08	0.08	0.08	0.08	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.095

The joint effect of the dividends continuously paid to shareholders and an increase in the price of the stock allowed the total shareholders' return accumulated since the company was initially listed to remain positive once again and to settle, at the end of the period in question, at over +213%.

+213%: total shareholders' return since the Ipo

The financial analysts covering the company (Banca Akros, Banca IMI, Equita Sim, Fidentiis Equities, Intermonte, Kepler Cheuvreux, MainFirst and Mediobanca) have expressed a clear prevalence of positive opinions, with almost all recommendations defined as buy/outperform. At the end of the period in question, the consensus target price came to € 3.33 euro, higher than the € 3.15 recommended at the end of 2017. At the official price recorded at the end of the third quarter, Hera stock therefore shows a +24.2% increase potential.

Breakdown of Group Shareholders at 30 September 2018



At 30th September, 48.5% of the corporate structure consisted of shares belonging to 111 public shareholders located across the geographical areas served and regulated by a stockholders' agreement, signed on 26 June 2018 and in force for three years, while 51.5% of the shares were floating.

48.5% of share capital pertains to the public shareholders agreement

Since 2006, Hera has adopted a share buyback program, renewed by the Shareholders Meeting of 26th April 2018 for 18 further months, for an overall maximum amount of € 200 million. This plan is aimed at financing M&A opportunities involving smaller companies, and smoothing out any anomalous market price fluctuations vis-à-vis those of the main comparable Italian companies. At the end of the reporting period, Hera held 21.1 million treasury shares.

After the publication of the new 2017-2021 business plan, Hera's top management engaged in a road show covering the main European and North American financial markets to illustrate the Group's growth targets to investors. This commitment to accurate communication, followed up on with participation in sector conferences, proved to have a positive effect on the stock's performance in the period in question.

Communication with the market as an intangible asset

The intense dedication shown by the Group towards dialoguing with investors contributed to reinforcing its market reputation and represents an intangible asset benefiting Hera stock and stakeholders.

1.04
Reference scenario and Group strategy

The utility sector and the Authority: rationalising the industry and liberalising the market

According to the latest Top Utility report drafted by Althesys, the public utilities sector plays a leading role within the Italian economy, accounting for approximately 7% of the country's Gross domestic product (GDP). This result, however, is reached through levels of service and efficiency that differ greatly across the country, on account of a high level of fragmentation among operators. The most recent census, carried out by the government in 2014, counted no less than 1,500 of the latter, a figure quite distant from the standards seen in other European Union countries. With the goal of improving the efficiency and transparency of these services, the government and the national Authority have therefore pursued actions aimed at rationalising the sector.

In gas distribution, for example, tenders for renewing grants are foreseen within the next five years across the entire country. These competitive procedures have been designed to promote greater consolidation among operators, while at the same time favouring the more efficient ones and those able to sustain wide-reaching investment plans. The geographical areas concerned by the tenders have in fact been widened, now covering provinces instead of municipalities, as was previously the case. It follows that, according to estimates made by sector professionals, a reduction should be seen in the number of companies operating, from over two hundred to twenty or thirty.

In late 2017, the government also established that regulations for the waste management sector were to pass over to the Authority for electricity, gas and the water service, which was thus renamed as the Regulatory authority for energy, networks and the environment (Arera, Autorità di regolazione per energia reti e ambiente). Through this reform, the executive branch expects a higher degree of uniformity to be reached in tariffs and service quality nationwide, for example by defining the mechanisms used in tenders for granting concessions for street cleaning and urban waste collection. Thanks to this change, similar to the one introduced for water services, the government aims at achieving, over the medium term, a rationalisation of this sector, which is currently the only one lacking modern and rational regulations.

In liberalised businesses, the government's objective is to promote a higher level of market competition, to the advantage of end consumers. To this intent, the complete liberalisation of the electricity market was included in the 2017 Competition Bill (with a date set by the latest Milleproroghe decree at 1st July 2020). At present, roughly 20 million users have not yet chosen a free market energy supplier. Launching this process thus represents an opportunity to stimulate competition and give space to companies with the best service levels and the largest scale economies.

Hera's model of aggregation

In this context, marked in all sectors by various factors encouraging the consolidation of smaller businesses, Hera operates with a development model that is geared towards making the most of scale economies and synergies (internal growth) and expanding the geographical extent of its operations (external growth) by integrating sector enterprises. Since its establishment, 25 companies in bordering regions have been merged within the Group, allowing Hera to achieve nationally significant market positions and quintuple its Ebitda. This process has been favoured among other things by an amply diversified corporate structure that entrusts the Group's management to a governance inspired by an industrial and managerial type of rationale.

Hera grows in more than one direction

The results for the first nine months of 2018 also bear the mark of this strategic approach. In the energy sales business, Hera Comm Srl, the Group's trading company, completed its acquisition of a Blu Ranton Srl, a gas and electricity sales company operating in the Marche and Abruzzo regions with roughly 17,000 customers. Thanks to this transaction, which follows up on others completed over the last three years (Verducci Servizi Srl, Alento Gas Srl, Julia Servizi Più Srl, Fucino Gas Srl and Gran Sasso Srl), the Group is now the one of the foremost operators in these regions, with approximately 225,000 customers. In the same period, a customer portfolio was purchased from Eni in the province of

Gorizia, where the group already provides gas and electricity distribution services.

Internal growth was pursued as usual, by extracting efficiencies and synergies from the businesses managed, in line with the track record seen over the last five years, during which roughly 90 million euro in accumulated savings were recorded. This result was partially obtained thanks to the development of a few innovative projects, such as satellite searches for leakage in the water network or the digitalisation of the process of urban waste collection (HergoAmbiente project). Continued internal growth was furthermore seen in free markets, where a wider customer base was obtained through marketing initiatives and an enlargement of the regions involved in last resort services. 2018 is in fact the second year of the two-year grants in safeguarded electricity and default gas services, which the Group had been awarded in late 2016, gaining national co-leadership.

The Group's growth strategy, effectively and continuously pursued in the first three quarters of 2018 as well, maintained a perfect balance between regulated and liberalised activities in its core businesses. This balanced portfolio mix is geared towards the sustained presence of a high risk diversification.

The new business plan to 2021

In early January 2018 the new business plan to 2021 was presented, the fifteenth since the Group's establishment, aimed towards further growth. Thanks to a macroeconomic scenario expected to improve and the development opportunities offered by the rationalisation of the sector, Ebitda is expected to grow by 218 million euro, reaching in 2021 the target of 1.135 billion euro, higher than the one set down in the previous plan. Relying on the Group's current market position and the availability of accumulated financial resources, growth will also be fuelled by an ambitious investment program coming to roughly 2.9 billion euro, with a sharp acceleration (+62%) compared to the investments made in the last five years. The Group's strategy, indeed, calls for an efficient allocation of capital, fully financed by cash generation and largely dedicated to networks, which will allow the Group to conserve its current low risk profile.

The objective of maintaining financial solidity was also confirmed, with a target of a 2.9 net debt to Ebitda ratio. The 17% increase in dividends per share, to be implemented progressively until 2021, in any case leaves ample room with which to finance any possible opportunities for future growth.

In line with the content of the previous business plan, this strategy will be supported by the usual five development levers: growth, efficiency, innovation, excellence and agility. This orientation, which has already proven its validity in recent years, is at the root of all projects envisaged for the next four years, which match the main directions in which the sector is evolving: circular economy, utility 4.0 and customer experience.

Circular economy

The strategy through to 2021 also proves to be in line with the idea of a circular economy, pushing sustainable management beyond simply reusing and recycling materials coming from sorted waste. The Group, that in this area has already reached the targets set by supranational organisations (EU and UN) well ahead of time, will take a decisive step in the upcoming five-year period and become able to directly produce goods that can be relocated on the market, through the use of recycled materials.

Utility 4.0

The Group furthermore intends to move towards utility 4.0, through the use of digital technologies in all business areas. Smart networks, big data analysis and the internet of things indeed represent opportunities to have the processes and infrastructures managed more efficient and concretely contribute to a smart development of the cities served.

Customer experience

A great deal of attention is also expected to be given to customer experience and all related activities, which lead customer relations management tools to evolve. The target is an ever-increasing capacity and speed in big data analysis in order to shape strategies aimed at improving the quality of the services offered, as well as to define the marketing offers that best meet customer requests.

The plan presents targets and projects that the Group wishes to pursue in a sustainable way, creating value for all stakeholders. The first to do so in Italy, in 2017 Hera reported its creation of shared value

Creation of shared value

(Csv). This indicator calculates the Group's Ebitda deriving from activities in line with the global objectives set out in the UN Agenda and, more specifically, those that meet the call to action of 10 of the 17 points presented, i.e.: efficient use of resources, intelligent use of resources, innovation and territorial development. In the previous financial year (2016), Csv accounted for roughly 30% of Group Ebitda, and this amount is expected to rise to 40% by 2021, considering that two thirds of the growth foreseen in the plan is related to projects aligned with the UN's Global Agenda.

1.5
PERSONNEL ORGANIZATION

Hera Group employees with open-ended contracts as of 30th September 2018 numbered 8,543 (consolidated scope) and were distributed by role as: executive managers (151), middle managers (531), office clerks (4,585) and workers (3,276).
This structure was determined by hirings (212) and dismissals (303), as well as the change in the scope of consolidation due to the entrance of Blu Ranton (6) and Megas Net (19); and the exit of Forlì Alea Ambiente (53) and Medea (21).

OPEN-ENDED CONTRACTS	30 Sept 18	31 Dec 17	Change
Executive managers	151	154	-3
Middle managers	531	537	-6
Office clerks	4,585	4,612	-27
Workers	3,276	3,380	-104
Total	8,543	**8,683**	**-140**

Specifically, the changes were as follows:

OPEN-ENDED CONTRACTS	
Personnel at 31 December 2017	**8,683**
Hirings	212
Dismissals	-303
Net changes	**-91**
Change in corporate scope hirings (*)	**25**
Change in corporate scope dismissals (*)	-74
Total	**8,543**

(*) Blu Ranton and Megas Net

(**) Forlì Alea Ambiente and Medea

The changes for the period are mainly due to:

- consolidation of contracts, from short-term to long-term contracts;
- addition of new professional positions not previously present in the Group;
- the reduction in the number of workers was balanced by the addition of analogous long-term hires who gradually entered into open-ended processes of consolidation.

2

Consolidated Financial Statements of the Hera Group

2.01
Financial statement formats

2.01.01
Income statement

mln/euros	30-Sept-2018 (9 months)	30-Sept-2017 (9 months)
Revenues	4,348.4	4,027.8
Other operating revenues	321.1	327.3
Use of raw materials and consumables	(1,966.6)	(1,776.4)
Service costs	(1,529.2)	(1,428.6)
Personnel costs	(410.1)	(409.1)
Other operating costs	(42.9)	(45.3)
Capitalized costs	28.0	29.0
Amortization, depreciation and provisions	(372.2)	(366.8)
Operating revenues	**376.5**	**357.9**
Share of profits (losses) pertaining to associated companies	9.7	9.2
Financial income	73.6	79.5
Financial expense	(144.0)	(163.2)
Financial operations	**(60.7)**	**(74.5)**
Earnings before taxes	**315.8**	**283.4**
Taxes	(95.1)	(90.6)
Overall revenues for the period	**220.7**	**192.8**
To attribute to:		
Parent company shareholders	208.7	182.9
minority shareholders	12.0	9.9
Earnings per share		
Basic	**0.142**	**0.124**
Diluted	**0.142**	**0.124**

2.01.02

Statement of financial position

mln/euros	30-Sept-2018	31-Dec-2017
ASSETS		
Non-current assets		
Property, plant and equipment	1,995.0	2,015.7
Intangible assets	3,200.5	3,127.0
Goodwill	384.1	384.1
Equity investments	147.0	148.8
Current and non-current financial assets	121.2	125.2
Deferred tax assets	163.3	150.5
Derivative financial instruments	76.9	66.1
Non-current assets	**6,088.0**	**6,017.4**
Current assets		
Inventories	192.4	121.2
Trade receivables	1,617.6	1,760.9
Current and non-current financial assets	44.3	41.5
Current tax assets	83.3	29.8
Other current assets	284.5	303.3
Derivative financial instruments	139.7	40.2
Cash and cash equivalents	518.4	450.5
Total current assets	**2,880.2**	**2,747.4**
Assets held for sale	-	22.9
TOTAL ASSETS	**8,968.2**	**8,787.7**

mln/euros	30-Sept-2018	31-Dec-2017
SHAREHOLDERS' EQUITY AND LIABILITIES		
Share capital and reserves		
Share capital	1,467.7	1,473.6
Reserves	941.0	820.2
Revenues for the period	208.7	251.4
Group net equity	**2,617.4**	**2,545.2**
Non-controlling interests	185.5	160.8
Total net equity	**2,802.9**	**2,706.0**
Non-current liabilities		
Non-current financial liabilities	2,998.8	2,892.2
Post-employment and other benefits	136.3	142.3
Provisions for risks and charges	442.2	432.5
Deferred tax liabilities	52.9	45.5
Derivative financial instruments	41.3	34.5
Non-current liabilities	**3,671.5**	**3,547.0**
Current liabilities		
Current financial liabilities	362.8	279.6
Trade payables	1,139.9	1,395.9
Current tax liabilities	115.0	37.9
Other current liabilities	817.1	769.4
Derivative financial instruments	59.0	46.0
Total current liabilities	**2,493.8**	**2,528.8**
TOTAL LIABILITIES	**6,165.3**	**6,075.8**
Liabilities associated with assets held for sale	-	5.9
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**8,968.2**	**8,787.7**

2.01.03

Cash flow statement

mln/euros	30-Sept-2018	30-Sept-2017
Earnings before taxes	**315.8**	**283.4**
Adjustments to reconcile net profit to the cashflow from operating activities		
Amortization and impairment of property, plant and equipment	121.5	123.4
Amortization and impairment of intangible assets	160.2	152.5
Allocation to provisions	90.5	90.9
Effects from valuation using the equity method	(9.7)	(9.2)
Financial (income) expenses	70.4	83.7
(Capital gains) losses and other non-monetary elements (including valuation of commodity derivatives)	(35.1)	(8.4)
Change in provision for risks and charges	(19.7)	(22.0)
Change in provision for employee benefits	(8.7)	(6.0)
Total cash flow before changes in net working capital	**685.2**	**688.3**
(Increase) decrease in inventories	(71.2)	(32.8)
(Increase) decrease in trade receivables	64.6	20.8
Increase (decrease) in trade payables	(258.0)	(118.2)
Increase/decrease in other current assets/liabilities	67.0	46.7
Changes in working capital	**(197.6)**	**(83.5)**
Dividends collected	15.2	11.0
Interest income and other financial income collected	33.2	31.2
Interest expenses and other financial charges paid	(80.1)	(83.5)
Taxes paid	(91.4)	(74.8)
Cash flow from operating activities (a)	**364.5**	**488.7**
Investments in property, plant and equipment	(100.1)	(85.6)
Investments in intangible assets	(198.8)	(191.7)
Investments in companies and business units net of cash and cash equivalents	(8.3)	(95.8)
Sale price of property, plant and equipment	3.7	2.0
Divestments in consolidated companies and contingent consideration	15.9	0.1
(Increase) decrease in other investment activities	9.4	(32.7)
Cash flow from (for) investing activities (b)	**(278.2)**	**(403.7)**
New issue of long-term binds	118.7	-
Repayments and other net changes in financial payables	38.0	97.0
Lease finance payments	(1.8)	(2.6)
Proceeds from the sale of shares without loss of control	1.8	-
Acquisition of interests in consolidated companies	(11.1)	(1.6)

Dividends paid out to Hera shareholders and non-controlling interests	(147.0)	(140.9)
Changes in treasury share	(17.0)	(0.4)
Other minor changes	-	0.2
Cash flow from (for) financing activities (c)	**(18.4)**	**(48.3)**
Effect of change in exchange rates on cash and cash equivalents (d)	**-**	**-**
Increase (decrease) in cash and cash equivalents (a+b+c+d)	**67.9**	**36.7**
Cash and cash equivalents at the beginning of the period	450.5	351.5
Cash and cash equivalents at the end of the period	518.4	388.2

2.01.04

Statement of changes in net equity

mln/euros	Share capital	Reserves	Reserves derivatives valued at fairvalue	Reserves actuarial income/(losses) post-employment benefits	Revenues for the period	Net equity	Non-controlling interests	Total
Balance as of 31-Dec-16	**1,468.1**	**772.4**	**(0.4)**	**(29.5)**	**207.3**	**2,417.9**	**144.2**	**2,562.1**
Revenues for the period					182.9	182.9	9.9	192.8
Other components of comprehensive income:								
fair value of derivatives, change for the period			1.2			1.2	0.2	1.4
Actuarial income/(losses) post-employment benefits				1.0		1.0		1.0
other business components valued at net equity		0.1				0.1		0.1
Overall revenues for the period	**-**	**0.1**	**1.2**	**1.0**	**182.9**	**185.2**	**10.1**	**195.3**
Changes in treasury share	(0.2)	(0.3)				(0.5)		(0.5)
payments of non-controlling shares						-	0.2	0.2
Changes in equity investments		(0.4)				(0.4)	(1.3)	(1.7)
Changes in the scope of consolidation						-	1.1	1.1
Allocation of revenues:								
Dividends paid out					(132.4)	(132.4)	(8.0)	(140.4)
allocation to reserves		74.9			(74.9)	-		-
Balance as of 30-Sept-17	**1,467.9**	**846.7**	**0.8**	**(28.5)**	**182.9**	**2,469.8**	**146.3**	**2,616.1**
Balance as of 31-Dec-17	**1,473.6**	**847.8**	**4.1**	**(31.7)**	**251.4**	**2,545.2**	**160.8**	**2,706.0**
Adoption of IFRS 9		(19.3)				(19.3)	(0.6)	(19.9)
Balance as of 1-Jan-18	**1,473.6**	**828.5**	**4.1**	**(31.7)**	**251.4**	**2,525.9**	**160.2**	**2,686.1**
Revenues for the period					208.7	208.7	12.0	220.7
Other components of comprehensive income:								
fair value of derivatives, change for the period			38.8			38.8	0.1	38.9
Actuarial income/(losses) post-employment benefits				(0.5)		(0.5)	-	(0.5)
Overall revenues for the period	**-**	**-**	**38.8**	**(0.5)**	**208.7**	**247.0**	**12.1**	**259.1**
Changes in treasury share	(5.9)	(11.1)				(17.0)		(17.0)
Changes in equity investments		(4.4)				(4.4)	(4.9)	(9.3)
Changes in the scope of consolidation		6.7		0.1		6.8	27.6	34.4
Allocation of revenues:								
Dividends paid out					(140.9)	(140.9)	(9.5)	(150.4)
allocation to reserves		110.5			(110.5)	-		-
Balance as of 30-Sept-18	**1,467.7**	**930.2**	**42.9**	**(32.1)**	**208.7**	**2,617.4**	**185.5**	**2,802.9**

2.01.05

SYNTHETIC EXPLANATORY NOTES

Accounting policies

As set forth in article 82-ter "Informazioni finanziarie periodiche aggiuntive" (Additional periodic financial information) of the Issuers' Regulation, the Hera Group has voluntarily decided to publish the consolidated three-month report as of 30th September 2018.

This consolidated three-month report was not prepared in accordance with the accounting principle regarding the sub-annual financial statement (IAS 34 "Interim Financial Reporting").

The preparation of this three-month report required estimates and assumptions to be made that affect the reported amounts of revenues, expenses, assets and liabilities as of 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 an accurate representation of management operations. It is also noted that certain valuation processes, specifically the more complex ones such as establishing any impairment of non-current assets, are generally carried out fully only for the preparation of the annual financial statements, except in cases where there are impairment indicators that require an immediate impairment test.

Income taxes are reported on the basis of the best estimate of the weighted average tax rate anticipated for the full financial year.

The data included in this consolidated three-month report are comparable to the same data of the previous periods, taking into account what is described in the following paragraph "Adoption of IFRS 9". In comparing the single items of the income statement and statement of financial position any change in the scope of consolidation outlined in the specific paragraph must also be taken into account.

Financial statement formats

The formats used are the same as those used for the consolidated financial statements as of and for the year ended 31st December 2017. A vertical format has been used for the income statement, with individual items analysed by type. We believe that this type of presentation, which is also used by our major competitors and is in line with international practice, best represents company results. The other components of comprehensive income are shown separately in the statement of changes in equity. The statement of financial position makes the distinction between current and non-current assets and liabilities. The cash-flow statement has been prepared using the indirect method.

In the financial statements any non-recurring costs and revenues are indicated separately.

The financial statements contained in this consolidated three-month report are expressed in millions of Euros through a decimal, unless otherwise indicated.

Adoption of IFRS 9

The new international accounting standard IFRS 9, issued by IASB on 24th July 2014 to replace the previous IAS 39, was obligatorily applicable beginning from January, 1st 2018, as a result of the approval of Regulation 2067/2016.
The standard introduces new criteria to classify and value financial assets and liabilities. In particular, for financial assets, the new standard uses a single approach based on the management of financial instruments and the characteristics of the contractual cash flows of financial assets in order to

determine the valuation criterion, replacing the various rules set out in IAS 39. For financial liabilities, on the other hand, the main change concerns the accounting treatment of changes in the fair value of a financial liability designated as a financial liability measured at fair value via the income statement, if these changes are due to changes in the creditworthiness of the issuer of the liability itself. According to the new standard, these changes must be recorded in the statement of comprehensive income instead of in the income statement, as before. Another significant change also involves the recognition of valuation differences if the estimates of payments or receipts in relation to financial assets and financial liabilities measured at amortised cost are adjusted. In fact, the new approach requires that the adjustment be recognised as income or expense in the revenues (losses) of the reporting period.

The new standard requires that the estimate of losses on receivables be made on the basis of the expected losses model (rather than the incurred losses model used by IAS 39), using information that is robust and available without unreasonable charges or efforts, including historical, current and prospective data. The standard requires that this valuation criterion be applied to all financial instruments, i.e. to financial assets measured at amortised cost, those measured at fair value through other components of the comprehensive income statement, receivables arising from lease contracts and trade receivables.

Finally, the standard introduces a new model of hedge accounting in order to adapt the requirements of the current IAS 39, which were sometimes considered too stringent and not suitable for reflecting the risk management policies of companies. The main new elements introduced concern:

- an increase in the types of transactions eligible for hedge accounting, also including the risks of non-financial assets/liabilities eligible for hedge accounting;
- a change in the method of accounting for forward contracts and options when they are included in a hedge accounting relationship, in order to reduce the volatility of the income statement;
- changes to the effectiveness test by replacing the current procedures based on parameters of 80-125% with the principle of the economic relationship between the hedged item and the hedging instrument; in addition, a retrospective assessment of the effectiveness of the hedging relationship will no longer be required.

The increased flexibility of the new accounting rules is offset by additional disclosure requirements for risk management activities.

The Group has opted to apply the new standard retrospectively, except where the standard itself requires that no recalculation be made for previous years. The comparative data concerning the first year of application have not been recalculated, in line with the simplified approach provided for by the accounting standard. Lastly, due to the nature of its operating activities, the Group has not changed the way it classifies and measures financial assets.

The following outlines how the new standard will affect the carrying amounts as of January, 1st 2018:

- the recalculation of the amortised cost of financial liabilities to reflect the new methods of recording adjustments due to the revision of payment estimates (in connection with restructuring operations carried out in previous years) led to the reporting of an increase in the value of liabilities amounting to 5.3 million euros. As a result, in line with the duration of the loans, lower financial charges of the same amount will be reported in future years;
- as regards the impairment model based on expected credit loss, the Group developed a new credit management model, applying it retrospectively to recalculate the provision for doubtful accounts, which led to an increase of 18.2 million euros, particularly with regard to receivables that have not yet come due;
- the impairment model based on the expected credit loss adopted by the jointly controlled company EstEnergy Spa resulted in an increase of 1 million euros in this company's provision for doubtful accounts.

Previous adjustments resulted in the reporting in equity of a negative transition reserve amounting to a total of 19.9 million euros, net of the related deferred taxes.

Lastly, as allowed by the standard, the Group maintained all hedging relationships as of 31st December 2017 designated in accordance with IAS 39, since they were not impacted by the new hedge accounting criteria set out in IFRS 9.

Scope of consolidation

The consolidated financial statements as at 30th September 2015 include the financial statements of the Parent Company Hera S.p.A. and those of its subsidiaries. Control is obtained when the Parent Company has the power to determine the financial and operational policies of a company, by way of currently valid rights, in such a way as to obtain benefits from the company's activity. Equity investments in joint ventures in which the Hera Group exercises joint control with other companies are consolidated with the equity method. The equity method is also used to evaluate equity investments in companies over which a significant influence is exercised. Small-scale subsidiaries for which recent financial reports are not available are carried at cost.

The lists of the companies included in the scope of consolidation are shown at the end of these notes.

Changes in the scope of consolidation

The table below shows changes in the scope of consolidation introduced during the first 9 months of 2018 financial year as compared to the consolidated financial statement at 31st December 2017.

Acquisition of control	Loss of control
Blu Ranton Srl	Medea Spa
Megas Net Spa	

On 8th February 2018, Hera Comm Marche Srl acquired all the shares of Blu Ranton Srl, a company that sells natural gas and electric power operating in the Marche and Abruzzo regions. The cost of the acquisition was approximately 8.6 million euros and the merger led to a client list to be registered for 10.9 million euros.

On 7th March 2018, the respective shareholders' meetings approved the merger by incorporation of Megas Net Spa (the company that owns the distribution networks in the Pesaro and Urbino areas) into Marche Multiservizi Spa. The operation resulted in an increase in the share capital of the merging company to service the exchange of all the shares of the merged company. This capital increase, which will service the non-controlling shareholders, led to a reduction in the Group's interest in Marche Multiservizi Spa from 49.59% to 40.80%, but this reduction did not affect governance. The cost of the acquisition, represented by the value paid to the new shares issued by Marche Multiservizi, amounted to approximately 34.4 million euros. It should also be noted that, given that no interim situation of reference was available at the acquisition date, the revenues and costs of Megas Net Spa were consolidated as of 1st January 2018. The effects of this simplification are to be considered irrelevant for the income statement of the first 9 months of 2018, in particular with reference to the margin indicators.

On 6th April 2018, the parent company Hera Spa completed the sale of all the shares it held in Medea Srl. As of 31st December 2017 the net assets of the company, identified as a disposal group, were classified as held for sale under the disposal agreement signed on 21st December 2017. The proceeds for the divestiture at the date the transfer of shares was carried out amounted to approximately 15.9 million euros.

Changes in equity investments

On 26th March 2018, Hera Comm Srl sold 2.88% of its shares in Hera Comm Marche Srl to the non-controlling shareholder, with a resulting change in the Group's interest in the company from 86.88% to 84%. The operation involved a revenue of approximately 1.8 million euros.

On 18th September 2018, Hera Spa the public auction held by Marche Multiservizi Spa to sell treasury shares held in its portfolio was won, and a further 5.40% of the share capital was acquired, with a consequent increase in the interest held in Marche Multiservizi to 46.20%.

In all of the preceding operations, the difference between the adjustment of these minority stakes and their fair value was recognised directly in equity and attributed to the parent company's shareholders.

Other corporate operations

With effect as of 1st January 2018, the merger by incorporation of Amga Calore & Impianti Srl into Sinergie Spa, both wholly-owned subsidiaries, took place, with the latter's name being changed to AccegasApsAmga Servizi Energetici Spa.

On 20th March 2018, after winning the public auction held by the municipalities of Atessa, San Vito Chietino and Paglieta, Hera Comm Srl acquired 49% of Sangroservizi, a company operating in the sale of natural gas. It was not possible to consolidate the company as of the reference date of this quarterly report as the company's economic and financial information is not yet available.

With effect as of 20th July 2018, the company Alipackaging Srl was merged by incorporation into the controlling company Aliplast Spa.

Earnings per share

The following is a statement of earnings per share, calculated in relation to profit or loss attributable to holders of ordinary shares of the parent company.

	30-Sept-2018 (9 months)	**30-Sept-2017 (9 months)**
Profit or loss for the period attributable to holders of ordinary shares of the parent entity (A)	208.7	182.9
Weighted average number of shares outstanding for the purposes of calculation of earnings (loss) per share		
basic (B)	1,468,644,863	1,469,912,969
diluted	1,468,644,863	1,469,912,969
Earnings (loss) per share (in euros)		
basic (A/B)	**0.142**	**0.124**
diluted	**0.142**	**0.124**

Other information

This abbreviated consolidated third-quarter financial statement as at 30th September 2018 was drawn up by the Board of Directors and approved by the same at the meeting held on 8th November 2018.

2.04
LIST OF CONSOLIDATED COMPANIES

Subsidiaries

Registered name	Registered office	Share capital where not otherwise specified	Percentage held		Total interest
			direct	indirect	
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%
AcegasApsAmga Servizi Energetici Spa	Udine	11,168,284		100.00%	100.00%
Alimpet Srl	Borgolavezzaro (NO)	50,000		75.00%	75.00%
Aliplast Spa	Istrana (TV)	5,000,000		75.00%	75.00%
Aliplast France Recyclage Sarl	La Wantzenau (France)	25,000		75.00%	75.00%
Aliplast Iberia SL	Calle Castilla -Leon (Spain)	815,000		75.00%	75.00%
Aliplast Polska Spoo	Zgierz (Poland)	1,200,000 PLN		75.00%	75.00%
Amga Energia & Servizi Srl	Udine	600,000		100.00%	100.00%
AresGas Ead	Sofia (Bulgaria)	22,572,241 Lev		100.00%	100.00%
Aresenergy Eood	Varna (Bulgaria)	50,000 Lev		100.00%	100.00%
Asa Scpa	Castelmaggiore (BO)	1,820,000		38.25%	38.25%
Black Sea Gas Company Eood	Varna (Bulgaria)	5,000 Lev		100.00%	100.00%
Blu Ranton Srl	Pescara	100,000		100.00%	84.00%
Cerplast Srl	Formigine (MO)	100,000		75.00%	75.00%
EnergiaBaseTrieste Srl	Trieste	180,000		100.00%	100.00%
Feronia Srl	Finale Emilia (MO)	100,000		52.50%	52.50%
Frullo Energia Ambiente Srl	Bologna	17,139,100		38.25%	38.25%
Gran Sasso Srl	Pratola Peligna (AQ)	162,810		100.00%	100.00%
Herambiente 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		84.00%	84.00%
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%
Heratech Srl	Bologna	2,000,000	100.00%		100.00%
Hera Trading Srl	Trieste	22,600,000	100.00%		100.00%
HestAmbiente Srl	Trieste	1,010,000		82.50%	82.50%
Inrete Distribuzione Energia Spa	Bologna	10,000,000	100.00%		100.00%
Marche Multiservizi Spa	Pesaro	16,388,535	46.20%		46.20%
Marche Multiservizi Falconara Srl	Falconara Marittima (AN)	100,000		46.20%	46.20%
Sviluppo Ambiente Toscana Srl	Bologna	10,000	95.00%	3.75%	98.75%
Tri-Generazione Scarl	Padova	100,000		70.00%	70.00%
Umbro Plast Srl	Gualdo Cattaneo (PG)	98,800		75.00%	75.00%
Uniflotte Srl	Bologna	2,254,177	97.00%		97.00%
Variplast Srl	Quinto di Treviso (TV)	50,000		75.00%	75.00%
Verducci Servizi Srl	Gulianova (TE)	50,000		84.00%	84.00%
Waste Recycling Spa	Santa Croce sull'Arno (PI)	1,100,000		75.00%	75.00%

Jointly controlled companies

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

Affiliated companies

Registered name	Registered office	Share capital (euros)	Percentage held		Total interest
			direct	indirect	
Aimag Spa*	Mirandola (MO)	78,027,681	25.00%		25.00%
Q.tHermo Srl	Florence	10,000		39.50%	39.50%
Set Spa	Milan	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 share capital of these companies consists of 67,577,681 euros of ordinary shares and 10,450,000 of related shares.

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