# Consolidate quarterly report

## as at 30 september 2017

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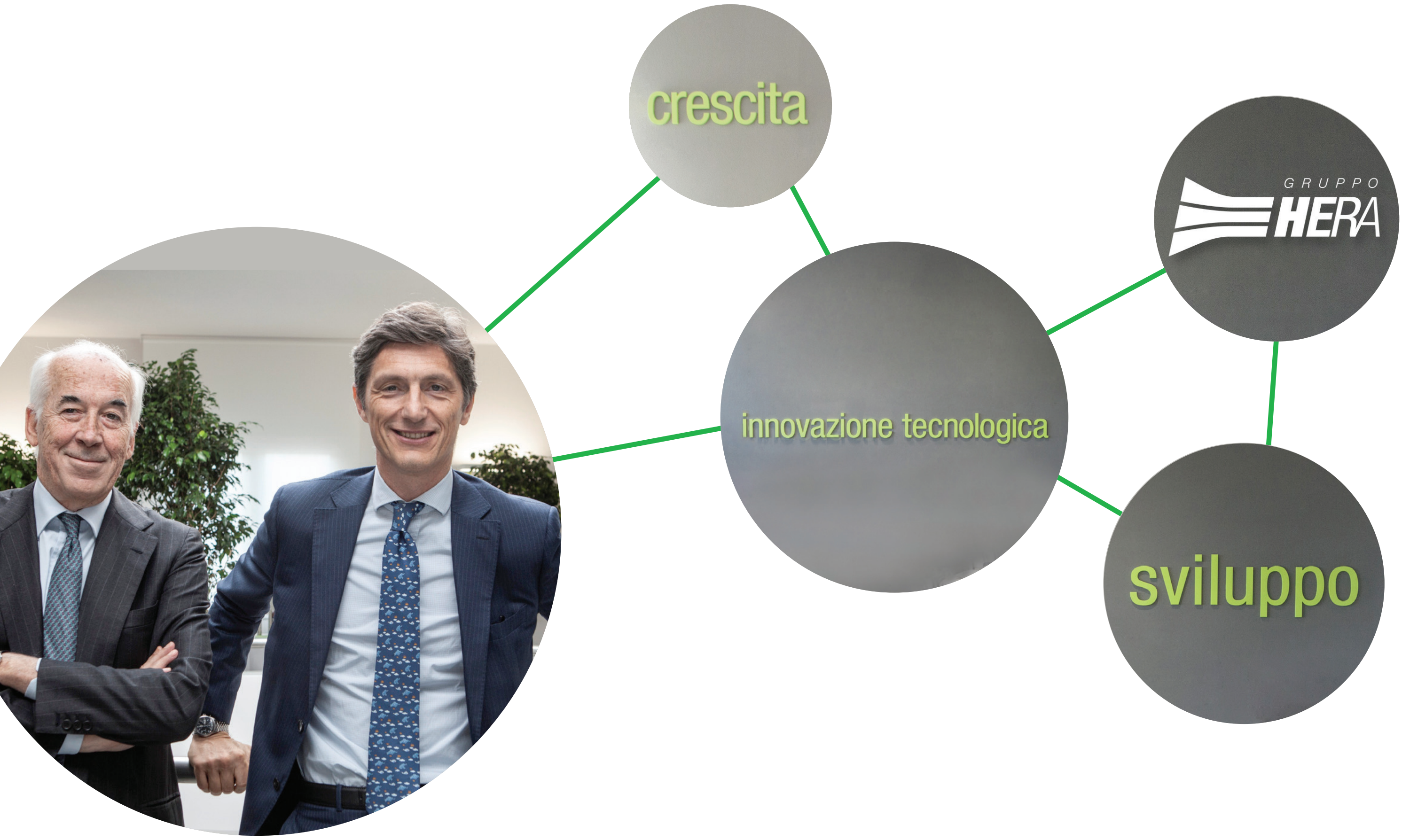
# INTRODUCTION



# 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 | Aldo Luciano |
| Director | Stefano Manara |
| Director | Danilo Manfredi |
| Director | Erwin P.W. 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 | Sara Lorenzon |
| Member | Erwin P.W. Rauhe |
| Member | Duccio Regoli |
| **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 S.p.A. |

- *Aldo Luciano has resigned with effect from 5 October 2017*

# 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 richness represent the promise of a sustainable future; and **suppliers**, key elements in the value chain and partners for growth".*

# DIRECTORS' REPORT

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

**Operating APMs and investments**

| Economic indicators and investments (€/mln) | Sept 2017 | Sept 2016 | Abs. change | % Change |
|---|---|---|---|---|
| **Revenues (*)** | **4,027.8** | 3,615.5 | +412.3 | +11.4% |
| **EBITDA** | **724.7** | 650.6 | +74.1 | +11.4% |
| *EBITDA/Revenues ratio (*)* | *18.0%* | *18.0%* | *+0.0 p.p.* | |
| **EBIT** | **357.9** | 329.2 | +28.7 | +8.7% |
| *EBIT/Revenues ratio (*)* | *8.9%* | *9.1%* | *-0.2 p.p.* | |
| **Net profit** | **192.8** | 151.8 | +41.0 | +27.0% |
| *Net profit/revenues ratio (+)* | *4.8%* | *4.2%* | *+0.6 p.p.* | |
| **Net investments** | **248.0** | 241.2 | +6.8 | +2.8% |

*(*)The revenue recorded for 2016 has been adjusted (with no effect on results) to reflect a reclassification of system costs. For further details, see paragraph "1.01.01 Operating and Financial Results".*

**Financial APMs**

| Economic and financial indicators (€/mln) | Sept 2017 | Dec 2016 | Abs. Change | % Change |
|---|---|---|---|---|
| Property,plant and equipment | 5,670.8 | 5,564.5 | +106.3 | +1.9% |
| Net working capital | 108.8 | 99.9 | +8.9 | +8.9% |
| Provisions | (553.5) | (543.4) | -10.1 | -1.9% |
| Net invested capital | 5,226.1 | 5,121.0 | +105.1 | +2.1% |
| **Net financial debt** | **(2,610.0)** | (2,558.9) | -51.1 | -2.0% |

**Definition of Alternative Performance Measures (APM)**

The Hera Group uses Alternative Performance Measures (APM) to more effectively convey information about trends in the profitability of the businesses in which it operates as well as its financial situation. In accordance with the guidelines published 5 October 2015 by the European Securities and Markets Authority (ESMA/2015/1415) and in keeping with the provisions of Consob communication no. 92543 of 3 December 2015, the content of and the criteria used in defining the APMs found in this financial statement are explained below.

**Operating APMs and investments**

**EBITDA** is a measure of operating performance and is calculated by adding together "Operating income" and "Depreciation, amortization and write-downs." This measure is used as a financial target in internal documents (business plans) and external presentations (for analysts and investors), and is useful in evaluating the operating performance of the Group (as a whole, and at the level of 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 efficiency achieved in different periods.

**EBITDA over revenues, Operating profit over revenues and net income over revenues** are used as a financial target in internal documents (business plans) and external presentations (for analysts and investors), and measure the Group's operating performance by representing a proportion, in terms of percentage, of EBITDA, Operating profit and Net profit divided by revenues.

**Net investments** are defined as 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 (for analysts and investors), and is useful in evaluating spending capacity for the Group's investments in maintenance and development (as a whole and at the level of each Business Unit), also allowing for a comparison with previous periods, making 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 (for 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 efficiency 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 current assets and 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, including comparisons with previous periods. In this way it is possible to analyze trends and compare the efficiency 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 useful in evaluating the Group's ability to cope with possible future liabilities, also allowing for a comparison with previous periods. In this way it is possible to analyze trends and compare the efficiency achieved in different periods.

**Net invested capital** is determined 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 (for 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** 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 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 useful 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 efficiency 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 an indicator 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 (for analysts and investors) and represents a measure of the operating management’s ability to pay back its net debt.

**Funds from operations** is calculated as EBITDA minus doubtful accounts, interest expenses, income taxes and use of reserves and severance pay. This measure is used as a financial target in internal documents (business plans) and external presentations (for analysts and investors) and represents a measure of the operating activities’ ability to generate cash flow.

**ROI,** or return on net invested capital, is defined as the ratio between net operating earnings 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 measure 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 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 measure 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 EBITDA plus changes in net working capital, net of increases in doubtful accounts, the use of reserves and severance pay, operating and financial investments, financial income and expenses and income taxes. This measure is used as a financial target in internal documents (business plans) and external presentations (for analysts and investors) and is intended to measure a company’s capacity to generate cash flow and therefore its ability to finance itself.

## 1.01.01 Operating and financial results

**Constant growth in all indicators**

The Hera Group once again confirmed a rising trend in all main indicators at the end of the first nine months of 2017. In particular, EBITDA increased by 11.4%, operating profits by 8.7% and net profits by 27.0%.

These important results, obtained thanks to its consolidated multi-business strategy, must be seen within an ever more challenging and subdivided competitive and regulatory context, in which the Group operates in a balanced and agile way, combining its two time-tested levers of internal and external growth.

The main corporate and business operations having an effect on the Group's scope of operations at 30 September 2017, with respect to the same date in 2016, are as follows:

- In September 2016, Hera Comm was awarded the Friuli Venezia-Giulia and Emilia Romagna portions of the last-resort gas service (FUI) for 1 October 2016 – 30 September 2018, along with 5 portions of the default gas distribution service for the period 1 October 2016 – 30 September 2018.

- As of 1 November 2016, the company Gran Sasso Srl, which is involved in free market electricity and gas sales in the L'Aquila, Pescara and Chieti areas, became part of the Group's consolidated scope.

- In November 2016, in the national tender announced by the Single Purchaser for safeguarded services in 2017-18, Hera Comm was awarded six portions in eleven regions of Italy.

- On 1 February 2017, Waste Recycling Spa acquired the corporate branch involving plants of the Pisa company Teseco, a leader in industrial waste treatment and recovery.

- In January 2017 Herambiente Spa signed a binding deal with AligroupSrl to acquire the Aliplast Group, a leader in the sector of plastic waste collection, recycling and subsequent regeneration, in an integrated process that transforms waste into products ready to be reused. The operation was concluded on 3 April 2017, following confirmation of the content of the caveat, due to a positive evaluation coming from the Italian competition authority. As of the 2017 half-year report, all companies of the Aliplast Group have been wholly consolidated and contribute to the Hera Group's results with their effects in operations and assets backdated to 1$^{st}$ January 2017.

- In July 2017, following the Consip EE13 and EE14 Conventions resolved with the previous supplier, Hera Comm began safeguarded services for supply points in public administrations in the Veneto and Friuli-Venezia regions that make use of these conventions.

In order to respect sector regulations concerning unbundling, with effective date 1 July 2016 Hera Spa conferred its corporate branch dealing with electricity and gas distribution to Inrete Distribuzione Energia Spa.
As of 1 January 2017 HERAtech has been operational, a company that manages works requested by clients (service connections, technical opinions, urbanisations etc.) for all network services managed by the Group. It is furthermore responsible, both for the Group and third parties, for planning and creating plants and networks as well as highly specialised technical activities. The company is a wholly owned subsidiary of Hera S.p.A.

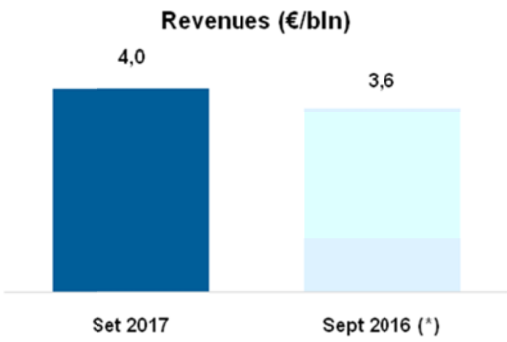
This consolidated income statement reflects the application of accounting principle IFRIC12, “Service concession arrangements”. The effect of applying this principle, which leaves the results unchanged, is that investments made in goods granted under concession, only including network services, are acknowledged in the income statement. Note that following resolution 268/2015/R/eel of 4 June 2015, for which the Authority adopted the standard network Code for electricity transportation, and also following DMEG resolution 13/2016 of 05 August 2016, as of 1 January 2017 revenues and costs covering general system costs and amounting to € 491.6 million have been recorded in the income statement as from operating accounts to financial accounts in sales companies. In order for the data to be compared more easily, the September 2016 figures have been adjusted for the insertion of system costs in operating accounts, similarly to 2017. This adjustment, which leaves the results unchanged, produced higher revenues at 30 September 2016 coming to € 510.7 million, and an equal increase in costs.
The following table shows the economic results for the first quarters of 2016 and 2017:

**A constant and growing increase**

| Income statement (€/mln) | Sept 2017 | % Inc. | Sept 2016 as adjusted | % Inc. | Abs. Change | % Change |
|---|---|---|---|---|---|---|
| Revenues | 4,027.8 | | 3,615.5 | | +412.3 | +11.4% |
| Other operating revenues | 327.3 | 8.1% | 259.9 | 7.2% | +67.4 | +25.9% |
| Raw materials | (1,776.4) | -44.1% | (1,437.4) | -39.8% | +339.0 | +23.6% |
| Service costs | (1,428.6) | -35.5% | (1,382.7) | -38.2% | +45.9 | +3.3% |
| Other operating costs | (45.3) | -1.1% | (34.7) | -1.0% | +10.6 | +30.6% |
| Personnel costs | (409.1) | -10.2% | (390.1) | -10.8% | +19.0 | +4.9% |
| Capitalised costs | 29.0 | 0.7% | 20.0 | 0.6% | +9.0 | +45.0% |
| **EBITDA** | **724.7** | **18.0%** | **650.6** | **18.0%** | **+74.1** | **+11.4%** |
| Amort. & Prov. | (366.8) | -9.1% | (321.3) | -8.9% | +45.5 | +14.2% |
| **Operating profit** | **357.9** | **8.9%** | **329.2** | **9.1%** | **+28.7** | **+8.7%** |
| Financial operations | (74.5) | -1.8% | (90.2) | -2.5% | -15.7 | -17.4% |
| **Pre-tax profit** | **283.4** | **7.0%** | **239.1** | **6.6%** | **+44.3** | **+18.5%** |
| Taxes | (90.6) | -2.3% | (87.2) | -2.4% | +3.4 | +3.9% |
| **Net profit of the period** | **192.8** | **4.8%** | **151.8** | **4.2%** | **+41.0** | **+27.0%** |
| Attributable to: | | | | | | |
| **Shareholders of the Parent Company** | **182.9** | **4.5%** | **142.2** | **3.9%** | **+40.7** | **+28.6%** |
| Non-controlling interests | 9.9 | 0.2% | 9.6 | 0.3% | +0.3 | +2.8% |

**Revenues at € 4.0 billion**

In the first nine months of 2017, revenues reached € 4,027.8 million, up € 412.3 million or 11.4% over the € 3,615.5 million seen in the same period of 2016. 2017 benefitted from the entrance of the Aliplast Group, which contributed with roughly € 79.3 million, and Gran Sasso, with € 7.3 million. Not including this change in scope of operations, growth in revenues settled at € 325.7 million, mainly due to greater activity in Trading, coming to roughly € 214 million, higher revenues for the price of electricity raw material, amounting to € 97 million, higher volumes of gas sold, for € 24 million and higher regulated revenues in the water service, totalling roughly € 22 million. The remaining decrease in revenues largely involves the € 24 million sale of green certificates carried out last year (with an equal effect on costs) and lesser revenues for € 16 million in energy efficiency certificates, which were recorded differently, reclassified from “revenues” to “other revenues and proceeds”.




*(*) The 2016 data reflects the adjustment in general system costs described above*

Other operating revenues increased compared to the same period in the previous year by € 67.4 million or 25.9%. This growth is mainly due to the abovementioned change in the accounting method used for energy efficiency certificates, from the entry “revenues” to “other operating revenues”, totalling € 16.0 million, higher IFRIC12 revenues coming to € 23.0 million, and the higher unit value.

The cost of raw and other materials rose by € 339.0 million compared to 30 September 2016, showing a 23.6% increase. This rise, not including the change in scope of operations resulting from the entry of the Aliplast Group and Gran Sasso, coming to roughly € 46.0 million, and the reclassification of energy efficiency certificates, amounting to roughly € 24 million, is due to greater activity in trading, a higher price of electricity as a raw material, greater volumes of gas sold and the higher cost per unit of energy efficiency certificates.

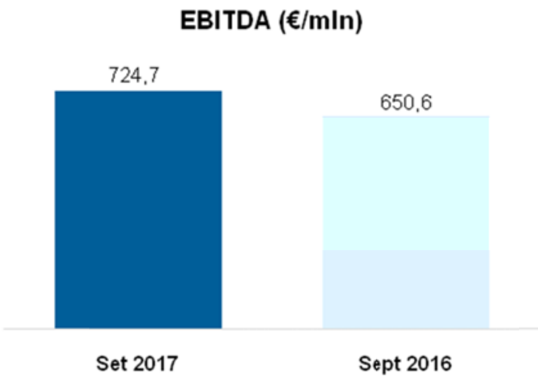
Other operating costs, net of changes in the scope of operations following the entry of the Aliplast Group and Gran Sasso coming to roughly € 15.4 million, grew by € 41.1 million overall (€ 31.0 million in higher costs for services and € 10.1 million in higher operating expenses). Mention must also got to roughly € 23.0 million in higher Ifric12 costs, roughly € 4.0 million in higher waste transportation, treatment and collection, higher costs in the water cycle mainly due to rapid intervention for the lack of rain in the first nine months of 2017, and higher costs in the waste area owing to maintenance works on a few waste treatment plants.

Personnel costs rose by € 19.0 million or 4.9%, going from the € 390.1 million seen at 30 September 2016 to the € 409.1 million recorded in 2017. This increase is mainly tied to salary increases provided for by the national collective labour agreement and the changes in scope of operations, for € 12.3 million overall. The most significant of these involve the Waste area, with the entry of the Aliplast Group and the corporate branch of Teseco. These increases were only partially offset by a reduction in average presence.

Capitalised costs at 30 September 2017 rose compared to the previous year by € 9.0 million or 45.0%, owing to greater work on plants and works carried out on Group company assets, also involving the different corporate breakdown linked to the creation of Inrete and Heratech.

**EBITDA at € 724.7 million (+11.4%)**

EBITDA settled at € 724.7 million, showing a € 74.1 million or 11.4% increase over September 2016. This growth in EBITDA is due to the good performance seen in all areas of the Group, but in particular the energy areas, thanks to higher earnings in the sales business involving the new portions awarded in the safeguarded and default markets and higher earnings in electricity production. Positive results were also seen in the Integrated Water Cycle area, the Waste area due to a reinforcement of the organisational structure, through the acquisition of the Aliplast Group, and in the Other Services area.

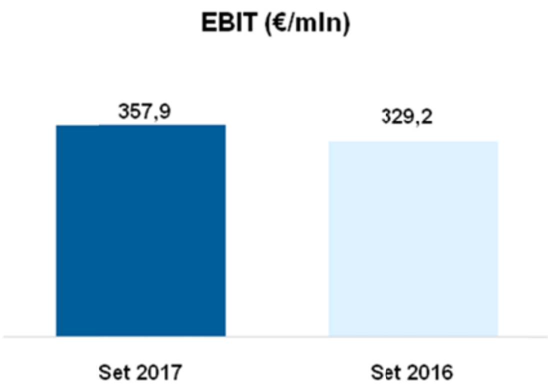



For further details, see the analyses of each single business area.

Amortisation and provisions rose by € 45.5 million or 14.2% overall, going from € 321.3 million in September 2016 to € 366.8 million in the same period of 2017. Amortisation increased due to new investments in regulated businesses and for the change in the scope of operations involving companies of the Aliplast Group and sales companies. Accruals to the provision for doubtful debts rose, in particular in the sales company Hera Comm, owing to the tender awarded for safeguarded customers.

**EBIT at € 357.9 million (+8.7%)**

EBIT at 30 September 2017 came to € 357.9 million, up € 28.7 million or 8.7% compared to the € 329.2 million seen one year earlier.



The results of financial management at the end of the first nine months of 2017 came to € 74.5 million, improving by € 15.7 million or 17.4% over the same period in 2016. The good performances are due to a more efficient and flexible financial structure, obtained thanks to the liability management operations set in place during 2016 and higher earnings involving recovery of default indemnities applied to late payments coming from safeguarded customers. Note must also go to the improved results obtained by allied companies and joint ventures.

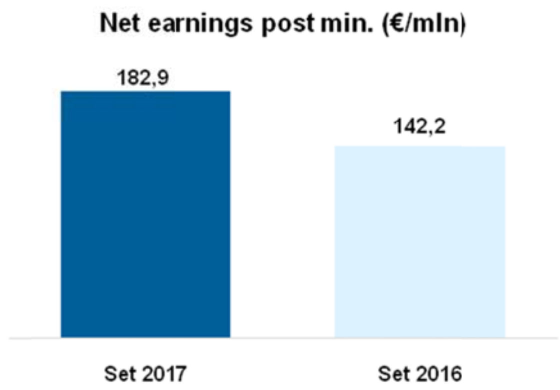
Pre-tax profits grew by € 44.3 million, going from € 239.1 million in September 2016 to € 283.4 million at the end of the first nine months of 2017.

Income tax pertaining to the first nine months of 2017 came to € 90.6 million, defining a tax rate of 32% and showing a clear improvement compared to the same period in 2016 (36.5%). The reasons for this decrease mainly involve a fall in the Ires rate, which went from 27.5% in previous financial years to 24% as of 2017; additionally, lesser taxes coming to roughly € 4.5 million were due to opportunities seized involving a wider scope of fiscal consolidation. Note furthermore the Group's continuous commitment to taking advantage of the benefits recognised by law, concerning in particular tax credits for research and development, an increase in deductions for amortisation and the patent box.

Net profits grew by 27.0%, equivalent to € 41.0 million, going from € 151.8 over the first nine months of 2016 to € 192.8 million in the same period of 2017.

**Net earnings post minorities at € 182.9 million (+28.6%)**

Group net profits came to € 182.9 million, rising by € 40.7 million over the previous year.



## 1.01.02 Analysis of asset structure and investments

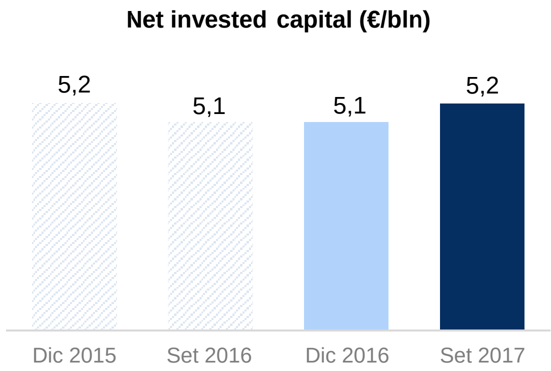
**The Group's size increases**

The table below provides an analysis of changes in the Group's net invested capital and sources of financing for the period ended 30 September 2017:

| Invested capital and sources of financing (€/mln) | 30 Sept 2017 | % Inc | 31 Dec 2016 | % Inc | Abs. Change | % Change |
|---|---|---|---|---|---|---|
| Property, plant and equipment | 5,670.8 | 108.5% | 5,564.5 | 108.7% | +106.3 | +1.9% |
| Net working capital | 108.8 | 2.1% | 99.9 | 2.0% | +8.9 | +8.9% |
| (Provisions) | (553.5) | -10.6% | (543.4) | -10.6% | (10.1) | (1.9%) |
| **Net invested capital** | **5,226.1** | 100.0% | 5,121.0 | 100.0% | +105.1 | +2.1% |
| Equity | (2,616.1) | 50.1% | (2,562.1) | 50.0% | (54.0) | (2.1%) |
| Net debt | (2,610.0) | 49.9% | (2,558.9) | 50.0% | (51.1) | (2.0%) |
| *Long-term borrowings* | *(2,713.3)* | *51.9%* | *(2,757.5)* | *53.8%* | *+44.2* | *+1.6%* |
| *Short term net debt* | *103.3* | *-2.0%* | *198.6* | *-3.9%* | *(95.3)* | *(48.0%)* |
| **Total sources of financing** | **(5,226.1)** | -100.0% | (5,121.0) | 100.0% | (105.1) | +2.1% |

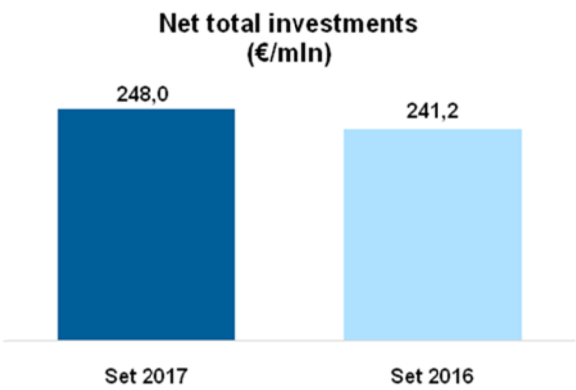
**Net invested capital at € 5.2 billion**

At 30 September 2017, net invested capital increased compared to 31 December 2016 by € 105.1 million. This change is entirely explained by the acquisition of a holding in the Aliplast Group by the company Herambiente.




**Net investments at 30 September 2017 grow to € 248.0 million**

At 30 September 2017, Group investments amounted to € 248.0 million, furthermore benefitting from € 29.6 million in capital grants, of which € 4.3 million for the New investments fund (FoNI), as foreseen by the tariff method for the Integrated water service. Including capital grants, overall Group investments came to € 277.6 million, up € 25.9 million, with net investments growing by € 6.8 million compared to the previous year, as an effect of the higher amount of capital grants. Net investments went from € 241.2 million in September 2016 to € 248.0 million in September 2017.




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

**Strong commitment continues in operating investments in plants and infrastructures**

| **Total investments (€/mln)** | **Sept 2017** | Sept 2016 | Abs. Change | % Change |
|---|---|---|---|---|
| Gas area | 67.3 | 64.1 | +3.2 | +5.0% |
| Electricity area | 16.1 | 16.7 | -0.6 | -3.6% |
| Water cycle area | 103.5 | 93.1 | +10.4 | +11.2% |
| Waste management area | 36.0 | 32.2 | +3.8 | +11.8% |
| Other services area | 13.3 | 9.2 | +4.1 | +44.6% |
| Headquarters | 40.8 | 36.3 | +4.5 | +12.4% |
| **Total operating investments** | **277.1** | 251.5 | +25.6 | +10.2% |
| Total financial investments | 0.5 | 0.2 | +0.3 | +150.0% |
| **Total gross investments** | **277.6** | 251.7 | +25.9 | +10.3% |
| Capital contributions | 29.6 | 10.5 | +19.1 | +181.9% |
| *of which FoNI (New Investment Fund)* | *4.3* | *4.2* | *+0.1* | +2.4% |
| **Total net investments** | **248.0** | 241.2 | +6.8 | +2.8% |

Operating investments came to € 277.1 million, increasing by 10.2% compared to September 2016 and mainly concerned interventions on plants, networks and infrastructures, in addition to regulatory upgrading involving above all gas distribution, with a large-scale substitution of metres, and the depuration and sewerage areas.

**At Group headquarters, investments in corporate buildings, IT systems and the vehicle fleet**

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

At Group headquarters, investments concerned interventions on corporate buildings, IT systems and the vehicle fleet, as well as laboratories and remote control structures. Overall investments in structures increased by € 4.5 million compared to the previous year, mainly regarding IT systems and the vehicle fleet.

**Provisions amount to € 553.5 million**

In September 2017, provisions amounted to € 553.5 million, up compared to December 2016 thanks to period reserves which proved to be higher than usage expenses in the first nine months of the year.

**Equity comes to € 2.6 billion**

Equity increased, going from € 2,562.1 million at the end of 2016 to € 2,616.1 million at 30 September 2017, following a dividend payment of roughly € 140.4 million, which was more than offset by the period's results, amounting to € 192.8 million.

## 1.01.03 Analysis of financial structure

An analysis of net borrowings is provided in the following table:

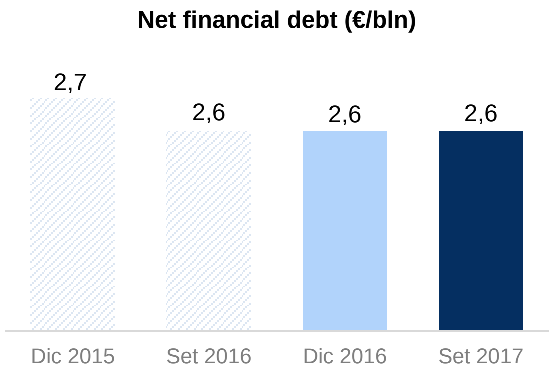
**A solid financial position**

| (€/mln) | | 30-set-17 | 31-dic-16 |
|---|---|---|---|
| a | **Cash and cash equivalents** | **388.2** | 351.5 |
| b | **Other current financial receivables** | **38.3** | 29.4 |
| | Current bank debt | (123.1) | (72.1) |
| | Current bank debt | (54.7) | (71.7) |
| | Other current financial liabilities | (143.4) | (36.2) |
| | Finance lease payments maturing within 12 months | (2.0) | (2.3) |
| c | **Current financial debt** | **(323.2)** | (182.3) |
| d=a+b+c | **Net current financial debt** | **103.3** | 198.6 |
| | Non-current bank debt and other sources of financing | (2,829.4) | (2,847.8) |
| | Other non-current financial liabilities | (4.1) | (5.0) |
| | Finance lease payments maturing after 12 months | (14.4) | (14.9) |
| e | **Non-current financial debt** | **(2,847.9)** | (2,867.7) |
| f=d+e | **Net debt - Consob communication n° 15519 of 28/07/2006** | **(2,744.6)** | (2,669.1) |
| g | **Non-current financial receivables** | **134.6** | 110.2 |
| h=f+g | **Net financial debt** | **(2,610.0)** | (2,558.9) |

The Group's borrowings have an average term to maturity of 8 years, with 68% maturing after more than 5 years.
Current debt, coming to € 323.2 million, is mainly owed to lending institutions, including bank loans reaching maturity amounting to roughly € 54.7 million, € 59.6 million in accrued liabilities and use of current credit lines coming to roughly € 63.4 million. Other current debt includes the commitment to acquire Aliplast, amounting to € 53.1 million, and other borrowings relating to management for third parties. The amount of non-current bank debt is largely made up of bonds issued on the European market and listed on the Luxembourg Stock Exchange (79.5% of the total), with repayment at maturity.

**Net financial debt at € 2.6 billion**

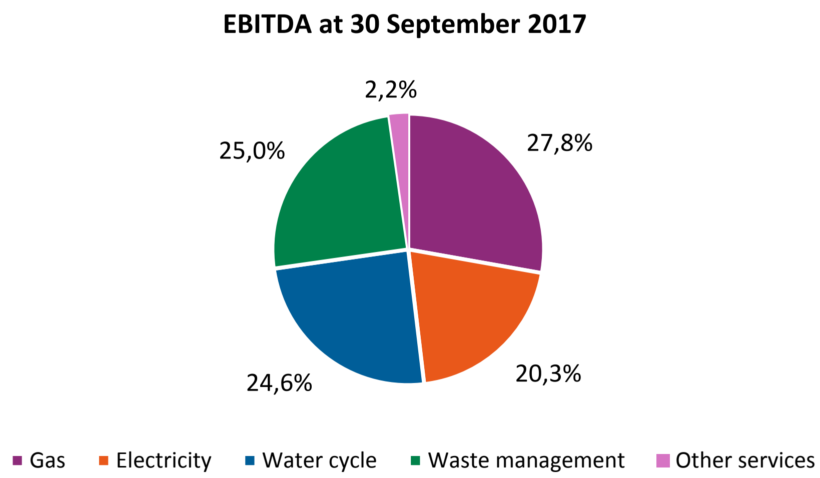
Net financial debt went from € 2,558.9 million at 31 December 2016 to € 2,610.0 at 30 September 2017. This change is the result of the good management that characterises the Group, which generated positive cash flows able to finance M&A operations and dividend payments, thus limiting the increase in net debt to only € 51.1 million.



## 1.02 Analysis by business unit

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 production, distribution and sales; the Integrated Water Cycle area, which covers aqueduct, purification and sewerage services; the Waste Management area, which covers services in waste collection, treatment and recovery; the Other Services area, which covers services in public lighting and telecommunications, as well as other minor services.

**Contributions coming from the Group's various areas towards overall EBITDA show balanced mix, in line with the Group's multi-business strategy.**




The Group's income statements include corporate headquarter costs and reflect intercompany transactions accounted 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, as shown in the Group's consolidated income statement. The business areas affected by IFRIC 12 are: natural gas distribution services, electricity distribution services, all integrated water cycle services and public lighting services.

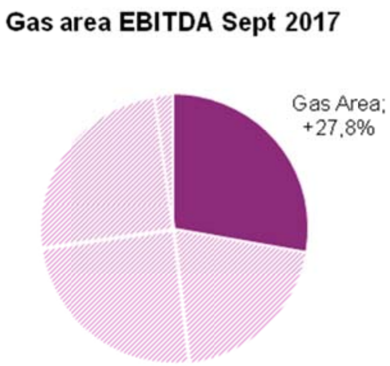
Changes in the Group's organisational and corporate breakdown following the creation of Inrete and Heratech have given way to a different representation of personnel costs and operating costs within the various business areas, which however remain congruent as regards the total.

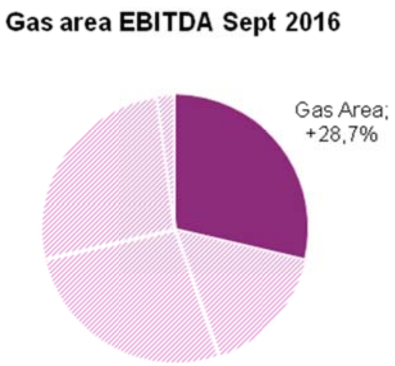
## 1.02.01 Gas

**Gas: EBITDA rises**

At the end of the first nine months of 2017, the Gas area saw increases over the same period in the previous year as regards both EBITDA and volumes sold. This result was partially obtained thanks to the company Hera Comm being awarded five portions of the default gas distribution service for the period 1 October 2016 – 30 September 2018 and two portions of the last resort gas service for the period 1 October 2016 – 30 September 2018. Compared to 30 September 2016, the revenue covering the underlying cost of amortisation related to investments made in the first nine months of 2017.

**Contribution to Group EBITDA falls**



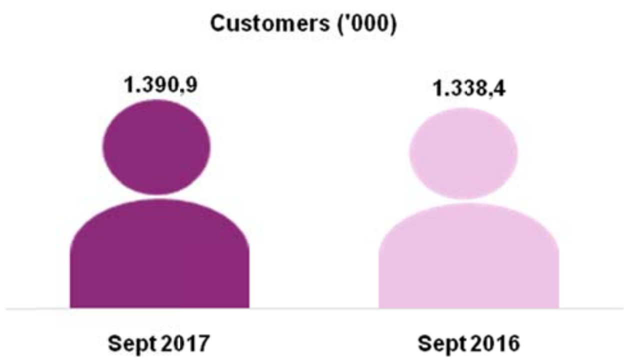

The following table shows the changes occurred in terms of EBITDA:

**Gas area EBITDA grows by 8.0%**

| (€/mln) | Sept 2017 | Set 2016 | Abs. Change | % Change |
|---|---|---|---|---|
| **Area EBITDA** | **201.4** | **186.5** | **+14.9** | **+8.0%** |
| Group EBITDA | **724.7** | 650.6 | +74.1 | +11.4% |
| Percentage weight | 27.8% | 28.7% | -0.9 p.p. | |

**1.4 million gas customers**

The number of gas customers rose by 3.9% over the same period in 2016. This trend is due to both commercial actions and the portions awarded of default gas distributions services and last resort gas services. The broader customer base also resulted from the corporate acquisition of Gran Sasso, with roughly 16 thousand customers. The contribution coming from the new portions awarded amounts to roughly 27.6 thousand customers.



**Volumes sold rise by +28.8%**

Volumes of gas sold rose by 726.7 million $m^3$ or 28.8%, going from 2,526.4 million $m^3$ at 30 September 2016 to 3,253.1 in the same period of 2017. This trend is mainly due to a growth in volumes traded coming to that reached 647.9 million $m^3$ (25.6% of total volumes). Volumes sold to final customers showed a growth of 5.5% compared to September 2016, thanks to an increase in the customer base and the contribution coming from the company Gran Sasso, amounting to roughly 10.4 million $m^3$. Furthermore, note that the higher portions awarded in the tender for default and last resort gas services allowed the volumes sold at 30 September 2017 to increase by roughly 25.0 million $m^3$. Not including changes in the scope of operations, the increase in volumes amounts to 2.5%.


The following table summarises operating results for the gas area:

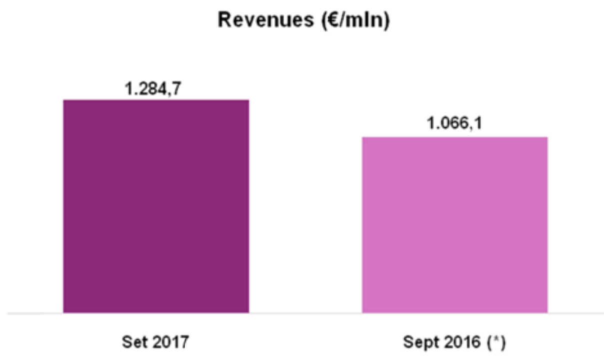
**Gas: overall EBITDA rises**

| Income statement (€/mln) | Sept 2017 | % Inc. | Sept 2016 as adjusted | % Inc. | Abs. Change | % Change |
|---|---|---|---|---|---|---|
| Revenues | **1,284.7** | | 1,066.1 | | +218.6 | +20.5% |
| Operating costs | **(1,013.3)** | -78.9% | (794.3) | -74.5% | +219.0 | +27.6% |
| Personnel costs | **(80.5)** | -6.3% | (92.2) | -8.6% | -11.7 | -12.7% |
| Capitalised costs | **10.5** | 0.8% | 6.9 | 0.6% | +3.6 | +52.3% |
| **EBITDA** | **201.4** | 15.7% | 186.5 | 17.5% | +14.9 | +8.0% |

*Note that pro forma data has been prepared for September 2016 in order to account for the reclassification of system costs, as in 2017. The effect on the 2016 data of this reclassification increases both revenues and operating costs by the same amount, € 33.9 million.*

**Gas revenues at € 1,284.7 million**

Revenues went from € 1,066.1 million at 30 September 2016 to € 1,284.7 million at 30 September 2017, growing by € 218.6 million or 20.5%. The main reasons for this growth lie in the sales and trading business, more specifically higher revenues in Trading amounting to roughly € 127 million, and the higher price of the raw material of gas sales, coming to € 2.5 million, which was also due to trends seen in the weighted average cost of natural gas, up 10% over the same period of the previous year. Other factors responsible for the change include higher volumes of gas sold, across an equal scope of operations, amounting to roughly € 13.6 million, the new portions of the default service awarded, coming to roughly € 10.8 million, and the acquisition of Gran Sasso, with



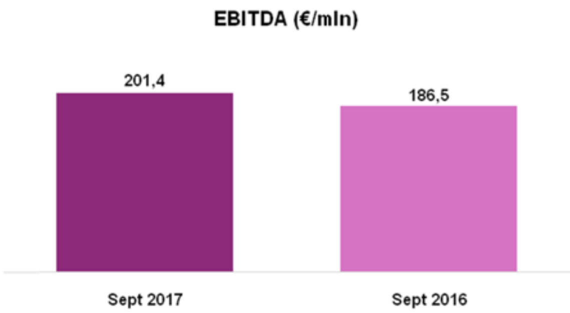

*(*)The 2016 data reflects the reclassification described above*

roughly € 6.6 million.
Furthermore, contributions for energy efficiency certificates rose by roughly € 41 million, thanks to the higher unit price, as did revenues from the gas distribution service, by way of the aforementioned revenues covering the cost of amortisation.
Lastly, note the higher revenues in the district heating service, coming to € 3.5 million, and € 6.3 million in higher revenues for IFRIC12 concessions and concessions for third parties.

The increase in revenues had a proportional effect on operating and personnel costs, which went from € 886.5 million overall at 30 September 2016 to € 1,093.8 million in the same period of 2017, thus showing an overall growth of € 207.3 million. This trend is mainly due to the greater activity in trading, the higher volumes sold, the higher price of raw materials in gas and the higher unit price of energy efficiency certificates.

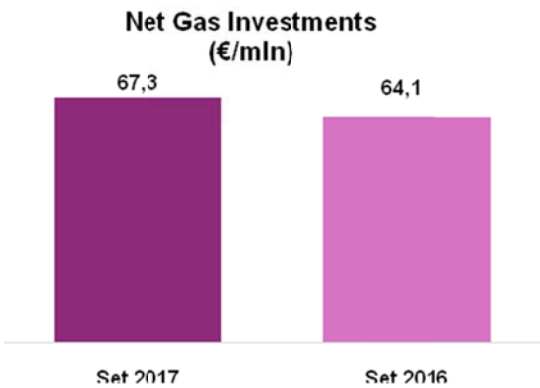
**Gas EBITDA: € 201.4 million**

EBITDA rose by € 14.9 million or 8.0%, passing from € 186.5 million in the first nine months of 2016 to the € 201.4 million seen in the same period in 2017, thanks to higher earnings in trading, greater volumes of gas sold and the wider scope of operations for the default service.




**Net investments in the Gas area: € 67.3 million**

At 30 September 2017, investments in the Gas area reached € 67.3 million, up € 3.2 million compared to the same date one year before. In gas distribution, a € 5.2 million increase was seen, mainly owing to activities in regulatory adaptation as per decree 554/15 (ex-decree 631/13) for a large-scale meter substitution, which also included lower-class devices (G4-G6), non-routine maintenance on networks and plants. Requests for new gas connections dropped slightly compared to the previous year, continuing to feel the effects of the overall economic situation.
Investments fell by € 1.9 million in district heating and heat management, mainly due to the more significant works carried out the previous year in district heating, involving the Bologna Barca and Forlì Campus plants. Interventions in heat management instead rose, especially those done by the company Sinergie in areas served by AcegasApsAmga. A slight reduction in new connections for district heating was recorded compared to the previous year.




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

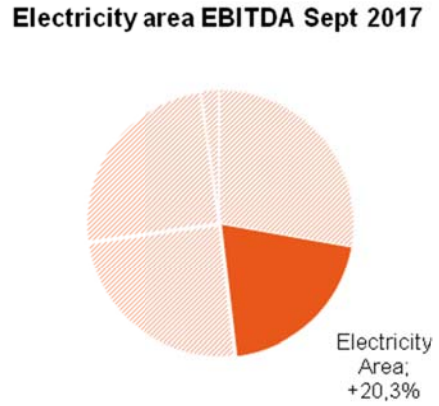
| Gas (€/mln) | Sept 2017 | Sept 2016 | Abs. Change | % Change |
|---|---|---|---|---|
| Networks and plants | 54.1 | 48.9 | +5.2 | +10.6% |
| RH/Heat management | 13.3 | 15.2 | -1.9 | -12.5% |
| **Total Gas Gross** | **67.3** | 64.1 | +3.2 | +5.0% |
| Capital contributions | 0.0 | 0.0 | +0.0 | +0.0% |
| **Total Gas Net** | **67.3** | 64.1 | +3.2 | +5.0% |

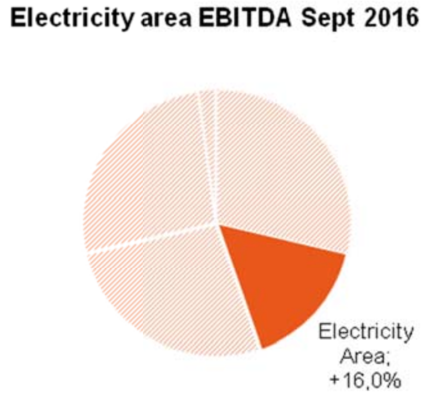
## 1.02.02 Electricity

**Electricity: increase in earnings**

The Electricity area offered the highest contribution to growth in Group EBITDA, as compared to the figures recorded at 30 September 2016.
Sales activities reached a wider customer base and Hera Comm was awarded the national tender called by the Single Purchaser for 2017-18 safeguarded services, winning six portions across eleven regions of Italy, with a different mix compared to the previous allocation. Furthermore, as of July 2017, following the resolution of Consip EE13 and EE14 conventions with the previous supplier, Hera Comm began offering safeguarded services for supply points for the public administrations in the Veneto and Friuli-Venezia regions that take advantage of these conventions. Lastly, production activities showed a good performance in asset management.

**Contribution to Group EBITDA: +4.3%**



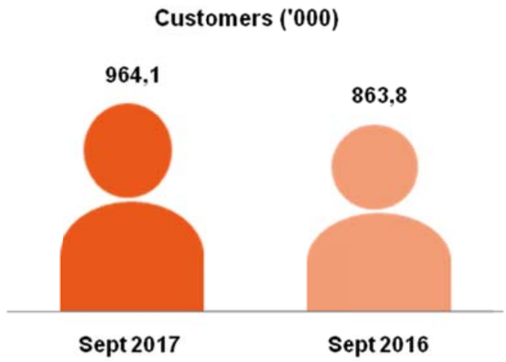

**Electricity Area EBITDA up 41.4%**

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

| (€/mln) | Sept 2017 | Set 2016 | Abs. Change | % Change |
|---|---|---|---|---|
| **Area EBITDA** | **147.4** | **104.3** | **+43.1** | **+41.4%** |
| Group EBITDA | **724.7** | 650.6 | +74.1 | +11.4% |
| Percentage weight | 20.3% | 16.0% | +4.3 p.p. | |

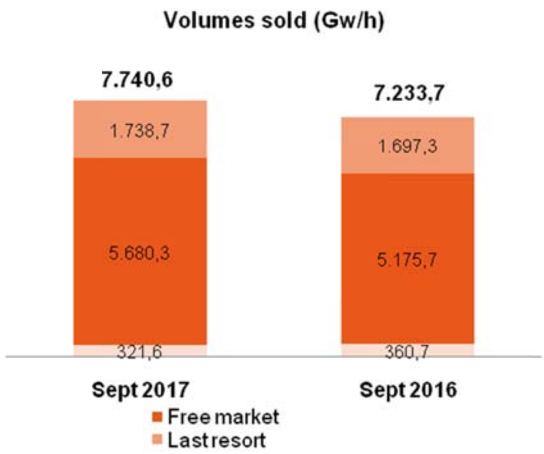
**964 thousand electricity customers**

The number of electricity customers recorded an 11.6% rise (100.3 thousand), mainly due to growth on the free market, coming to 11,3%. The trend of growth seen over recent years continues, owing to both reinforced commercial action and the wider customer base obtained thanks to factors including the tender for safeguarded services.



**Growth in volumes sold**

Volumes of electricity sold went from 7,233.7 GWh at 30 September 2016 to 7,740.6 GWh at 30 September 2017, with an overall increase of 7.0%. Volumes sold on the free market, up 9.7%, more than offset the drop in protected market volumes, while safeguarded services grew by 2.4%; this change is mainly due to the different mix of portions assigned, which tend to consume less energy than the previous ones.




**Electricity: overall earnings increase**

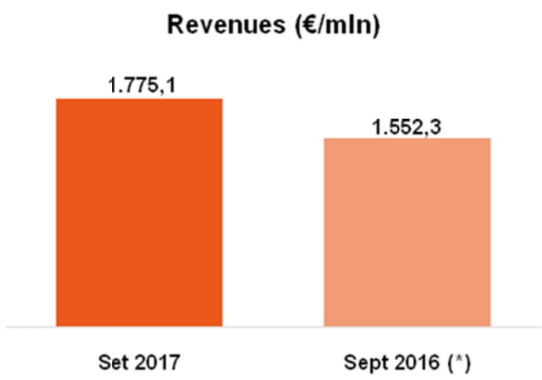
The following table summarises operating results in the area:

| Income statement (€/mln) | Sept 2017 | % Inc. | Sept 2016 as adjusted | % Inc. | Abs. Change | % Change |
|---|---|---|---|---|---|---|
| Revenues | **1,775.1** | | 1,552.3 | | +222.8 | +14.4% |
| Operating costs | **(1,602.3)** | -90.3% | (1,415.9) | -91.2% | +186.4 | +13.2% |
| Personnel costs | **(33.3)** | -1.9% | (37.5) | -2.4% | -4.2 | -11.2% |
| Capitalised costs | **7.9** | 0.4% | 5.3 | 0.3% | +2.6 | +48.8% |
| **EBITDA** | **147.4** | 8.3% | 104.3 | 6.7% | +43.1 | +41.4% |

*Note that pro forma data has been prepared for September 2016 in order to account for the reclassification of system costs, as in 2017. The effect on the 2016 data of this reclassification increases both revenues and operating costs by the same amount, € 476.8 million.*

**Revenues from electricity reach € 1,775.1 million**

Revenues rose by 14.4%, going from the € 1,552.3 seen in the first nine months of 2016 to € 1,775.1 million over the same period in 2017. The main reasons behind this growth are: an increase in the weighted average cost of energy (PUN), up 34% compared to the previous year, which led to higher revenues for sales (€ 97 million), trading (€ 87 million) and production in WTE plants (roughly € 22 million); higher volumes sold, which generated revenues coming to roughly € 38.2 million. Revenues for transmission outside the network fell by roughly € 10 million and revenues for regulated services also dropped due to lower revenues covering the cost of amortisation.

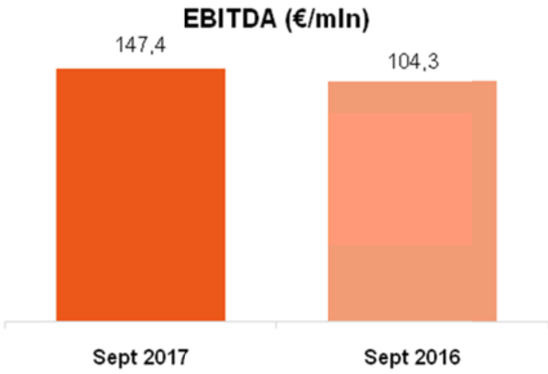



*(*)The 2016 data reflect the reclassification described above*

The increase in revenues is reflected proportionally by a rise in operating and personnel costs, which went from € 1,453.4 million overall at 30 September 2016 to € 1,635.6 million at the same date in 2017, thus showing an overall growth of € 182.2 million. This trend is mainly due to an increase in the cost of raw materials and the higher volumes sold.

**Electricity EBITDA at € 147.4 million**

At the end of the first nine months of 2017, EBITDA rose by € 43.1 million or 41.4%, going from € 104.3 million at 30 September 2016 to € 147.4 million at the same date in 2017, thanks to higher earnings in free market and safeguarded market sales and to higher earnings in electricity production.



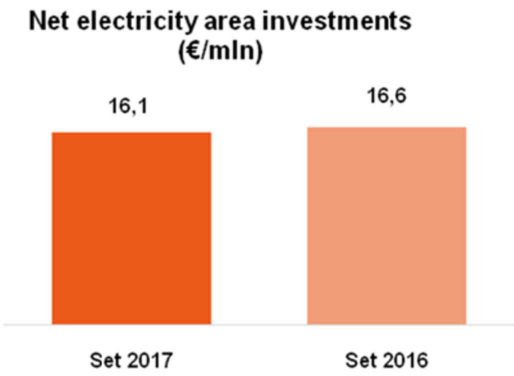

**Net investments in the Electricity Area: € 16.1 million**

Investments in the Electricity Area at 30 September 2017 amounted to € 16.1 million, down € 0.5 million compared to the € 16.6 million seen the previous year.

The interventions set in place mainly concerned non-recurring maintenance on plants and distribution networks in the areas surrounding Modena, Imola, Trieste and Gorizia.

Compared to the same period in the previous year, lesser non-recurring maintenance was seen, which mostly depended on the interventions carried out on the Imola Cogen plant in 2016.

As regards requests for new connections in this area, a slight increase was seen over September of the previous year.




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

| **Eletricity (€/mln)** | **Sept 2017** | Sept 2016 | % Abs. | % Change |
|---|---|---|---|---|
| Networks and plants | 16.1 | 16.7 | -0.6 | -3.6% |
| **Total Electricty Gross** | **16.1** | 16.7 | -0.6 | -3.6% |
| Capital contributions | 0.0 | 0.0 | +0.0 | +0.0% |
| **Total Electricity Net** | **16.1** | 16.6 | -0.5 | -3.0% |

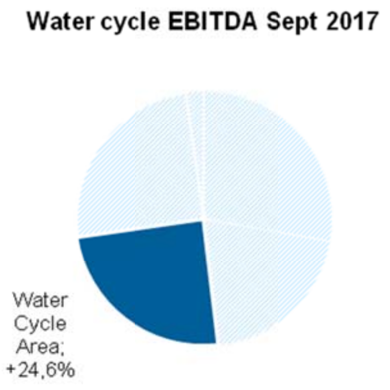
## 1.02.03 Integrated water cycle

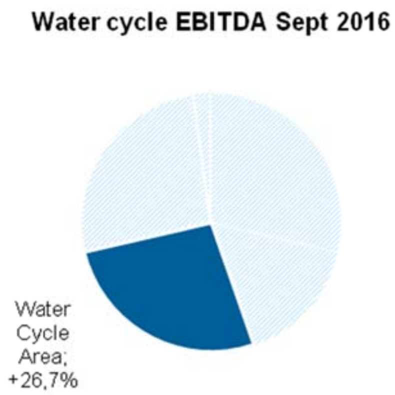
**Integrated Water Cycle: area EBITDA grows**

**1.5 million water customers**

At 30 September 2017, the integrated water cycle area recorded a € 4.6 million (2.6%) growth in EBITDA. Regarding regulations, note that 2017 is the second year in which the tariff method defined by Authority for electricity, gas and the water system (hereinafter the Authority) for 2016-2019 is applied (resolution 664/2015), and that for the first nine months of 2016, the revenue covering the underlying cost of amortisation related to investments made in the period covered by the third-quarter report is recognized on an accrual basis. Furthermore, with resolution 655/15, effective as of July 2016, minimum contract quality standards have been defined, both with a general scope and further specific obligations concerning help desks, invoices and estimates. Through this resolution, mechanisms through which commercial quality is recognised have been introduced.

**Contribution to Group EBITDA down by 2.1%**



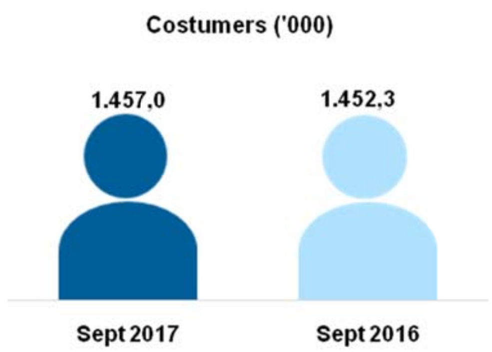

**2.6% growth in Water Cycle Area EBITDA**

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

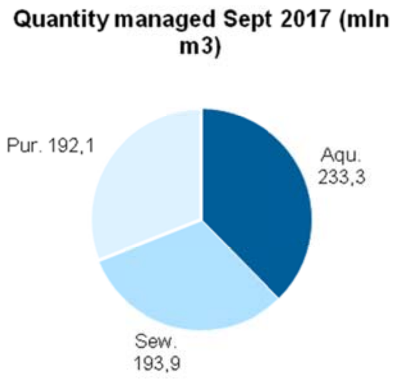
| (€/mln) | Sept 2017 | Sept 2016 | Abs. Change | % Change |
|---|---|---|---|---|
| **Area EBITDA** | **178.3** | 173.7 | +4.6 | +2.6% |
| Group EBITDA | **724.7** | 650.6 | +74.1 | +11.4% |
| Percentage weight | 24.6% | 26.7% | -2.1 p.p. | |

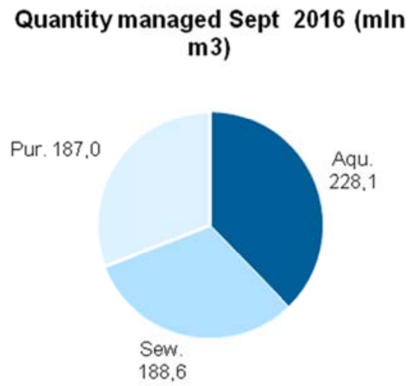
**233.3 million m$^3$ managed in the aqueduct**

The number of water customers settled at 1.5 million, with a 4.7 thousand increase (0.3%) over the first nine months of 2016. This highlights the trend of organic growth seen in the Group's reference areas, in particular in the Emilia Romagna region, managed by Hera Spa.



The main quantitative indicators of the area are as follows:




Volumes dispensed through the aqueduct showed a 5.2 million m$^3$ increase over September 2016 (roughly 2.3%): this can be traced to both higher amount of consumption in all areas served and more rainfall over the first nine months of 2016 compared to the same period in 2017. Furthermore, a slight growth was seen in the amount managed in sewerage (roughly 2.8%) and purification (roughly 2.8%) compared to September 2016. Volumes dispensed, following AEEGSI resolution 664/2015, are an indicator of the Group's activities in the geographical areas it serves, and are subject to equalisation pursuant to regulations that call for a regulated revenue to be recognised independently of volumes distributed.

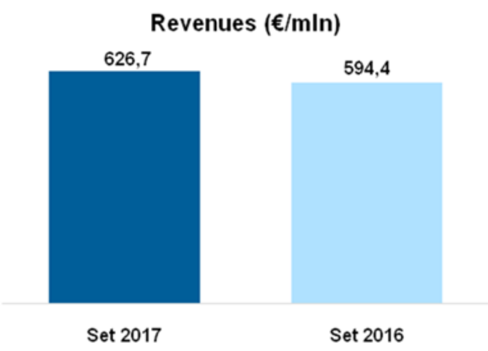
The table below synthesises the income statement for the water area:

**Integrated Water Cycle: growth in EBITDA**

| Income statement (€/mln) | Sept 2017 | % Inc. | Sept 2016 | % Inc. | Abs. Change | % Change |
|---|---|---|---|---|---|---|
| **Revenues** | **626.7** | - | 594.4 | - | +32.3 | +5.4% |
| Operating costs | **(319.9)** | -51.0% | (306.0) | -51.5% | +13.9 | +4.5% |
| Personnel costs | **(132.2)** | -21.1% | (117.2) | -19.7% | +15.0 | +12.8% |
| Capitalised costs | **3.6** | 0.6% | 2.6 | 0.4% | +1.0 | +38.7% |
| **EBITDA** | **178.3** | 28.4% | 173.7 | 29.2% | +4.6 | +2.6% |

**Integrated Water Cycle revenues at € 626.7 million**

Revenues rose by 5.5%, going from € 594.4 million in September 2016 to € 626.7 million in the same period of 2017. Various factors are responsible for this: higher revenues for dispensing coming to roughly € 22 million due to the overall effects of tariffs provided for by the AEEGSI for 2016-2019 (Mti-2); higher revenues covering underlying amortisation costs and the recognition of commercial quality; furthermore, higher

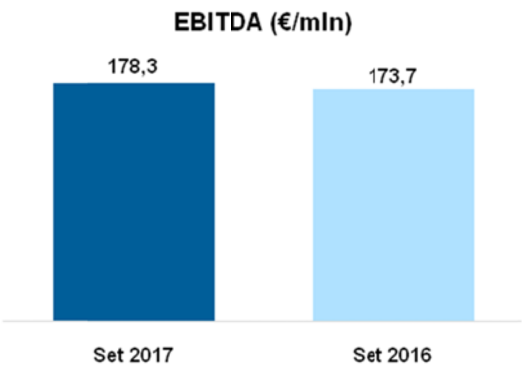


revenues for the application of accounting principle IFRIC12 amounting to roughly € 11.0 million were seen.

Operating and personnel costs rose by € 28.9 million overall, or 6.8%; this increase is due to higher IFRIC 12 commissions, an increase in the price of electricity for plant operations, higher volumes purchased in water raw materials and higher operating costs for network and plant management mainly concerning a rise in rapid intervention activities. All of the management factors mentioned are tied to the climate seen in 2017, one of the four driest years out of the last sixty, with precipitation 30% lower than average.

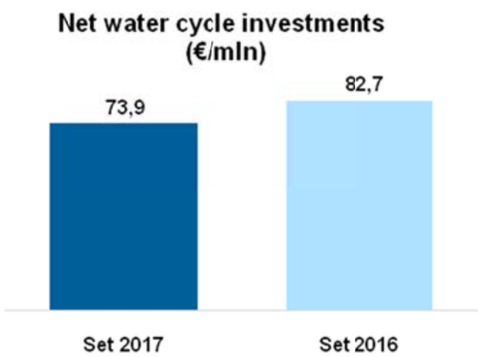
**EBITDA at € 178.3 million**

EBITDA grew by € 4.6 million or 2.6%, going from € 173.7 million in September 2016 to € 178.3 million in the same month of 2017, thanks to higher revenues for delivery coming to roughly € 22 million, in spite of lower revenues for new connections amounting to roughly € 1 million and the higher operating costs mentioned above.




**Net investments in the Integrated Water Cycle area: € 73.9 million**

Net investments in the Integrated Water Cycle area amounted to € 73.9 million, dropping by € 8.8 million compared to the previous year owing to the € 19.2 million increase seen in capital grants. Not including capital grants, investments in this area came to € 103.5 million, with a € 10.4 million increase over the previous year.




The interventions mainly concerned extensions, reclamations and network and plant upgrading, in addition to regulatory upgrades involving above all purification and sewerage.

Investments were made amounting to € 42.2 million in the aqueduct, € 24.9 million in sewerage and € 36.4 million in purification.

Among the more significant works, note in particular: in the aqueduct, upgrading connections in the Modena water system, an important upgrading of a dorsal adduction conduit in the province of Ferrara and interventions aimed at protecting water plants against earthquakes; in sewerage, continued progress in works for the Rimini Seawater Protection Plan, in addition to redevelopment of the sewerage network in other areas; in purification, the higher investments compared to the previous year mainly involved continuing the important work being done on upgrading the Servola purification plant, in the areas served by AcegasApsAmga.

Requests for new water and sewerage connections dropped compared to the same period in the previous year.

**Capital grants rise by € 19.2, leading net investments to drop by € 8.8 million**

Capital grants amounting to € 29.6 million include € 4.3 million pertaining to the tariff component provided for by the tariff method for the New Investments Fund (FoNI), and rose overall compared to September 2016 by € 19.2 million.

Details of operating investments in the Integrated Water Cycle are as follows:

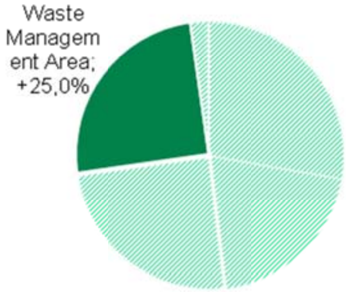
| **Water Cycle Area (€/mln)** | **Sept 2017** | Sept 2016 | Abs. Change | % Change |
|---|---|---|---|---|
| Aqueduct | 42.2 | 44.9 | -2.7 | -6.0% |
| Purification | 36.4 | 20.9 | +15.5 | +74.2% |
| Sewage | 24.9 | 27.3 | -2.4 | -8.8% |
| **Total Water Cycle Gross** | **103.5** | 93.1 | +10.4 | +11.2% |
| Capital contributions | 29.6 | 10.4 | +19.2 | +184.6% |
| *of which FoNI (New Investment Fund)* | *4.3* | *4.2* | +0.1 | +2.4% |
| **Total Water Cycle Net** | **73.9** | 82.7 | -8.8 | -10.6% |

## 1.02.04 Waste management

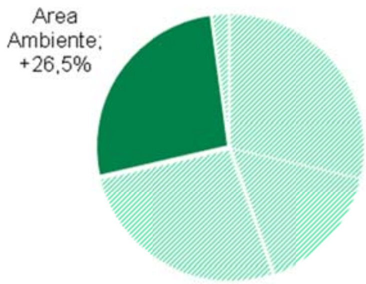
At 30 September 2017 the Waste management area's contribution to overall Group EBITDA came to 25.0%, with an area EBITDA growing by 5.3% over 30 September 2016. During the first nine months of 2017 the organisational structure of the Waste Management area was reinforced by the acquisitions of the Aliplast Group, a national leader in plastic recycling, and the "plants" corporate branch of the Pisa company Teseco, an outstanding actor in industrial waste treatment and recovery. These important operations allowed the Group to further enlarge its commercial offer and its plant base.

**Waste: EBITDA rises**

**Waste management areaSept 2017**




**Waste management area Sept 2016**




**Waste Management area EBITDA: up € 9.2 million**

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

| (€/mln) | Sept 2017 | Sept 2016 | Abs. Change | % Change |
|---|---|---|---|---|
| **Area EBITDA** | **181.4** | **172.2** | **+9.2** | **+5.3%** |
| Group EBITDA | **724.7** | 650.6 | +74.1 | +11.4% |
| Percentage weight | 25.0% | 26.5% | -1.5 p.p. | |

Volumes marketed and treated by the Group are as follows:

**Market waste: +9.6%**

| Quantitative data (thousand of tonnes) | Sept 2017 | Sept 2016 | Abs. change | % Change |
|---|---|---|---|---|
| Urban waste | 1,522.3 | 1,533.4 | -11.1 | -0.7% |
| Market waste | 1,915.4 | 1,747.6 | +167.8 | +9.6% |
| **Commercialised waste** | **3,437.7** | **3,281.0** | **+156.7** | **+4.8%** |
| Plant by-products | 1,631.0 | 1,869.8 | -238.8 | -12.8% |
| **Waste treated by type** | **5,068.6** | **5,150.9** | **-82.3** | **-1.6%** |

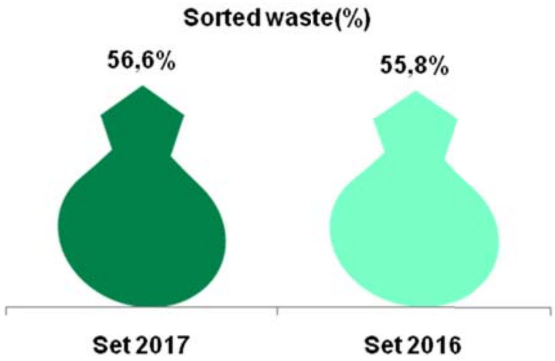
An analysis of the quantitative data shows a 4.8% increase in commercialised waste compared to the previous year, mainly due to a 9.6% rise in market waste, thanks to the commercial actions aimed at plant saturation, development in new markets and a growth in the plant base, due to the acquisition of the corporate branch involving plants of the company Teseco and the Aliplast Group.

Urban waste, instead, dropped slightly. In particular, the higher quantities of sorted and beach waste, which rose by 0.9%, only partially offset the lower quantity of non-sorted waste, which fell by 2.5%.

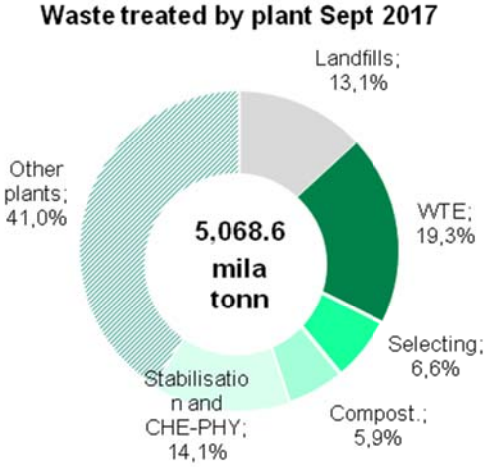
The decrease in by-products was mainly due to a lesser production of leachate in landfills, traceable to lower rainfall.

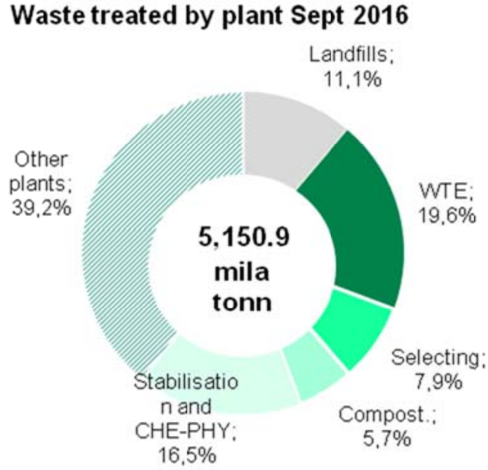
**+0.8% in sorted waste**

Sorted urban waste showed further progress, going from 55.8% in September 2016 to 56.6% in September 2017. During the first nine months of 2017, sorted waste increased by 0.7% in areas managed by Hera Spa and by 3.1% in areas managed by Marche Multiservizi, while growth settled at 0.7% in the Triveneto region.




**Fall in waste treated**




| **Quantitative data (thousand of tonnes)** | **Sept 2017** | Sept 2016 | Abs. Change | % Change |
|---|---|---|---|---|
| Landfills | 665.3 | 573.4 | +91.9 | +16.0% |
| Waste-to-energy plants | 977.8 | 1,009.8 | -32.0 | -3.2% |
| Selecting plant and other | 335.2 | 406.1 | -70.9 | -17.5% |
| Composting and stabilisation plants | 296.7 | 291.7 | +5.0 | +1.7% |
| Stabilisation and chemical-physical plants | 713.9 | 849.5 | -135.6 | -16.0% |
| Other plants | 2,079.8 | 2,020.4 | +59.4 | +2.9% |
| **Waste treated by plant** | **5,068.6** | **5,150.9** | **-82.3** | **-1.6%** |

The Hera Group operates in the entire waste cycle, with 94 urban and special waste treatment and plastic material regeneration plants, the most important of which are: 10 waste to energy plants, 11 composters/digesters and 15 selecting plants. The entry of the corporate branch of Teseco contributed with three chemical-physical plants, one stabilisation plant and one tankage plant, and the entry of the Aliplast Group contributed with six selectors and three transformation plants.

Waste treatment showed a slight drop, coming to 1.6% compared to the first nine months of 2016. As regards landfills, the quantitative increase is due to the higher availability of plants in Ravenna and Tremonti following the authorisations obtained. As regards waste to energy plants, the reduction in waste treated is due to a different scheduling than in the same period of 2016 for plant suspension and planned maintenance. The drop in quantity in selection plants can be attributed to a different classification of some plants, now “stabilisation and chemical-physical plants”. The drop in quantity in stabilisation and chemical-physical plants is due to a reduction in leachate in landfills due to lower rainfall and the different classification in this category of some plants (as mentioned above). Lastly, the chain of “Third-party plants/Other plants” benefitted from the acquisitions of the Aliplast Group and of the “plants” corporate branch of the company Teseco.

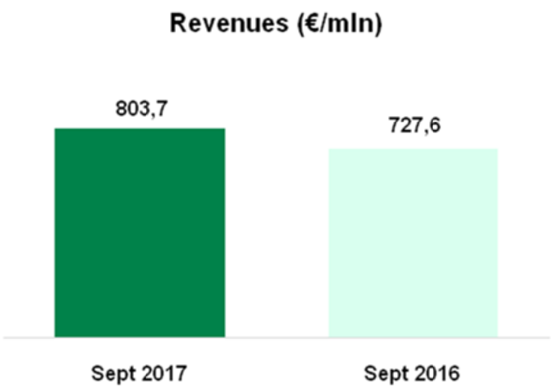
The table below summarises the income statement for the area:

**Waste management: EBITDA rises**

| Income statement (€/mln) | Sept 2017 | % Inc. | Sept 2016 | % Inc. | Abs. Change | % Change |
|---|---|---|---|---|---|---|
| Revenues | **803.7** | | 727.6 | | +76.1 | +10.5% |
| Operating costs | **(478.9)** | -59.6% | (430.6) | -59.2% | +48.3 | +11.2% |
| Personnel costs | **(148.7)** | -18.5% | (128.9) | -17.7% | +19.8 | +15.4% |
| Capitalised costs | **5.3** | 0.7% | 4.1 | 0.6% | +1.2 | +29.2% |
| **EBITDA** | **181.4** | 22.6% | 172.2 | 23.7% | +9.2 | +5.3% |

**Waste management revenues amount to € 803.7 million**

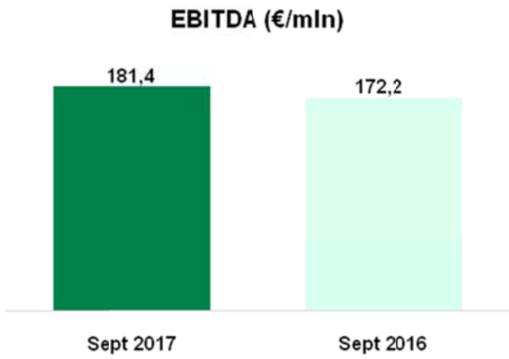
Revenues in the first nine months of 2017 rose by 10.5% or € 76.1 million, going from € 727.6 million in September 2016 to € 803.7 million in the same period of 2017. Net of the change in scope of operations caused by the entry of the Aliplast Group, which contributed with € 80.0 million, and of sales of environmental certificates coming to roughly € 24 million (passing to costs), revenues in the waste management area grew by roughly € 20 million over the previous year. This performance is tied to higher market volumes thanks to a development of commercial activities, the trend in the market price of special waste, which showed a positive movement over the first nine months of 2017, and higher revenues in urban cleaning as an effect of the tariff adjustments resolved by local ATOs, following the development of services in sorted waste collection. Furthermore, mention should go to the lower revenues from electricity production mainly ensuing from the loss of energy incentives for some plants and the lower energy production coming from some WTE plants, only partially offset by the increase in the price of energy (incentives and market).




Operating costs rose by 11.2% or € 48.3 million in the first nine months of 2017, going from € 430.6 million in September 2016 to € 478.9 million in the same period of 2017. Not including the change in scope of operations following the entry of the Aliplast Group, which contributed with € 57.4 million, and the aforementioned effect of environmental certificates, coming to roughly € 24 million, the Waste management area saw costs rise by roughly € 14.9 million compared to the previous year. This trend is due to the higher costs deriving from the increase in commercialised waste, the increase in costs tied to maintenance works on some waste treatment plants and higher costs for the development of new projects in the area of sorted waste.

**Waste management EBITDA at € 181.4 million**

EBITDA went from € 172.2 million in September 2016 to € 181.4 million in the same period of 2017, thus showing an area growth of € 9.2 million or 5.3%. € 11.4 million of this growth is due to the entry of the Aliplast Group within the Hera Group's scope of operations, alongside higher volumes commercialised in the waste treatment business and the higher price of special waste. These positive effects allowed both the drop in revenues for energy management and the higher costs in maintenance for some treatment plants to be contained.




**Net investments in the Waste management area come to € 36.0 million**

Net investments in the Waste management area concerned plant maintenance and upgrading interventions and amounted to € 36.0 million, up € 3.8 million compared to 2016.

The composting / digester subsector saw a € 5.6 increase in investments, mainly related to the Sant'Agata plant and activities involved in creating the biomethane plant.


The € 6.8 million decrease in investments in landfills is mainly due to the work carried out in 2016 for the creation of the 9th sector of the Ravenna landfill and the 5th portion of the Sommacampagna landfill, not offset by new interventions concerning the Tre Monti (basin reclamation and new energy recovery system) and Loria (creation of the 4th sector) landfills.

The WTE subsector showed a € 0.6 increase over the previous year, mainly involving modifications to the Pozzilli steam generator and minor maintenance interventions on other WTE plants.

Investments in the Special Waste Plant subsector were essentially in line with the precious year.

The ecological islands and collection equipment subsector showed lower investments, amounting to € 1.3 million, mainly owing to the implementation in 2016 in the Triveneto region of Hergo Ambiente, the innovative IT system that offers a coordinated management for all activities of the Hera Group's Waste Management Services. Lower investments were also seen in collection equipment in the area served by Marche Multiservizi.

The increase in the Selection and Recovery Plants subsector, coming to € 5.9 million, is mainly due to the consolidation of the Aliplast Group; note in particular the creation of the new line of PET washers launched by the company Alimpet. Furthermore, the company Waste Recycling is creating the project I-Waste, a management platform able to collect and elaborate information from a range of types of sensors that gather analytic data concerning the performance of the various treatment equipment and plants, putting them into relation with production activities, in order to achieve higher efficiency in management, technical and energy processes, with an intensive introduction of the IoT within the company.

Details of operating investments in the Waste Management area are as follows:

| **Waste Management (€/mln)** | **Sept 2017** | Sept 2016 | Abs. Change | % Change |
|---|---|---|---|---|
| Composting/Digestors | 7.5 | 1.9 | +5.6 | +294.7% |
| Landfills | 7.2 | 14.0 | -6.8 | -48.6% |
| WTE | 6.0 | 5.4 | +0.6 | +11.1% |
| RS Plants | 1.6 | 1.7 | -0.1 | -5.9% |
| Ecological areas and gathering equipment | 4.7 | 6.0 | -1.3 | -21.7% |
| Transshipment, selection and other plants | 9.1 | 3.2 | +5.9 | +184.4% |
| **Total Waste Management Gross** | **36.0** | 32.2 | +3.8 | +11.8% |
| Capital contributions | 0.0 | 0.0 | +0.0 | +0.0% |
| **Total Waste Management Net** | **36.0** | 32.2 | +3.8 | +11.8% |

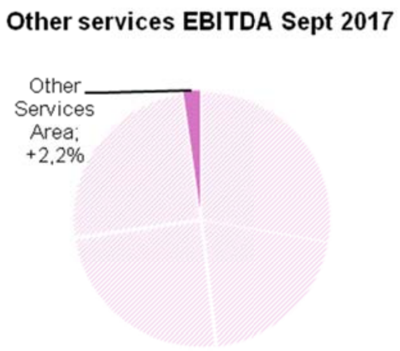
## 1.02.05 Other services

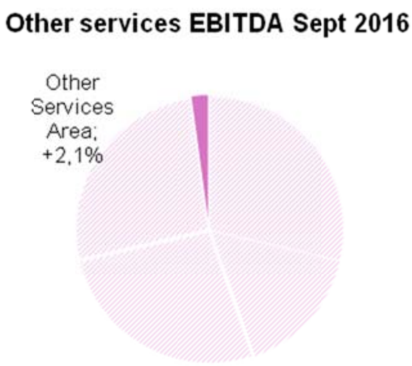
**Other services: EBITDA rises**

The Other services area brings together all minor services managed by the Group, including public lighting, telecommunications and cemetery services.

In the first nine months of 2017, results in the other services area increased by 17.3% over the same period in the previous year. EBITDA in fact went from € 13.9 million at 30 September 2016 to € 16.2 million at the same date in 2017.

**Contribution to Group EBITDA rises**




The changes occurred in terms of EBITDA are as follows:

**Other services EBITDA rises**

| (€/mln) | Sept 2017 | Sept 2016 | Abs. Change | % Change |
|---|---|---|---|---|
| **Area EBITDA** | **16.2** | **13.9** | **+2.3** | **+17.3%** |
| Group EBITDA | **724.7** | 650.6 | +74.1 | +11.4% |
| Percentage weight | 2.2% | 2.1% | +0.1 p.p. | |

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

| Quantative data | Sept 2017 | Sept 2016 | Abs. Change | % Change |
|---|---|---|---|---|
| **Public lighting** | | | | |
| Lighting points (thousands) | **509.2** | 517.6 | (8.4) | (1.6%) |
| Municipalities served | **162.0** | 151.0 | +11.0 | +7.3% |

**509.2 thousand lighting points**

An analysis of the data regarding public lighting shows a drop of 8.4 thousand lighting points and an increase of 11 municipalities managed. Over the course of the first nine months of 2017, the Hera Group acquired roughly 34 thousand lighting points in 17 new municipalities. The most significant acquisitions were in Lombardy (roughly 4 thousand lighting points in the provinces of Brescia, Bergamo and Cremona), Abruzzo (roughly 13 thousand lighting points), Lazio (roughly 4 thousand lighting points) and in the Triveneto region (roughly 13 thousand lighting points in the province of Pordenone). These increases only partially offset the loss of roughly 42 thousand lighting points and 6 6

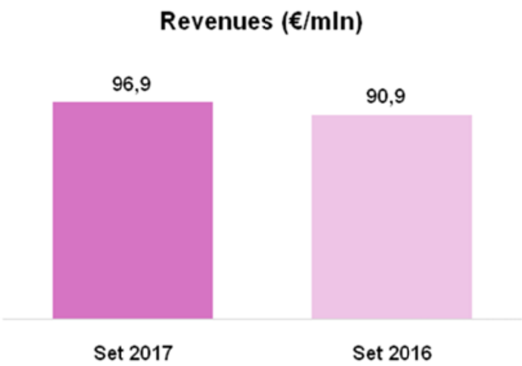
municipalities managed, of which the most significant decrease concerns the loss of management of roughly 29 thousand lighting points in the municipality of Rimini.
The area's operating results are as follows:

**Other services: revenues increase**

| Income statement (€/mln) | Sept 2017 | % Inc. | Sept 2016 | % Inc. | % Abs. | % Change |
|---|---|---|---|---|---|---|
| Revenues | **96.9** | | 90.9 | | +6.0 | +6.6% |
| Operating costs | **(68.0)** | -70.2% | (63.9) | -70.3% | +4.1 | +6.4% |
| Personnel costs | **(14.5)** | -14.9% | (14.2) | -15.6% | +0.3 | +2.1% |
| Capitalised costs | **1.9** | 1.9% | 1.1 | 1.2% | +0.8 | +72.9% |
| **EBITDA** | **16.2** | 16.8% | 13.9 | 15.2% | +2.3 | +17.3% |

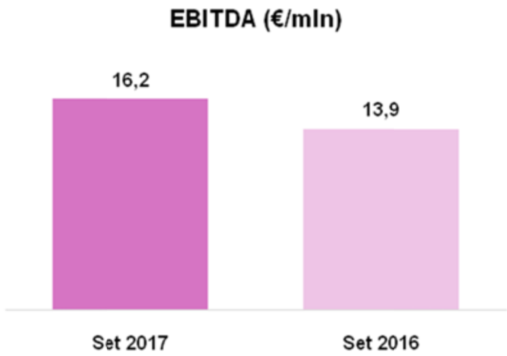
**Revenues for Other services at € 96.9 million**

Area revenues increased over September 2017 by € 6.0 million, going from € 90.9 million to € 96.9 million in September 2017. The growth seen over the first nine months of 2017 is due to a positive contribution from all the businesses that make up the area: revenues for public lighting rose by roughly € 3.8 million thanks to the good performance of Hera Luce, and the remainder of the growth came from the telecommunications and cemetery services managed by AcegasApsAmga.




**EBITDA grows by € 2.3 million**

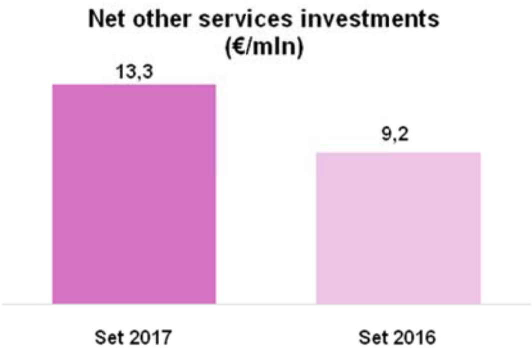
EBITDA showed growth coming to € 2.3 million over 30 September 2016. This trend can be traced to higher earnings in public lighting, owing to the good performance seen in all reference areas.




**€ 13.3 million in net investments**

Investments in the Other services area came to € 13.3 million, rising by € 4.1 million compared to September 2016.
In telecommunications, € 7.1 million were invested in networks and TLC and IDC (Internet Data Center) services, with a € 0.3 million increase over 2016.

In the public lighting service, investments went towards maintaining, enhancing and modernising lampposts and amounted to € 6.1 million, up € 3.7



million over the previous year. This increase concerned the area served by both the company Hera Luce and by AcegasApsAmga.

Details of operating investments in the Other Services Area are as follows:

| **Other Services (€/mln)** | **Sept 2017** | Sept 2016 | Abs. Change | % Change |
|---|---|---|---|---|
| TLC | 7.1 | 6.8 | +0.3 | +4.4% |
| Public Lighting and Street Lights | 6.1 | 2.4 | +3.7 | +154.2% |
| **Total Other Services Gross** | **13.3** | 9.2 | +4.1 | +44.6% |
| Capital contributions | 0.0 | 0.0 | +0.0 | +0.0% |
| **Total Other Services Net** | **13.3** | 9.2 | +4.1 | +44.6% |

# 1.03 Share performance and investor relations

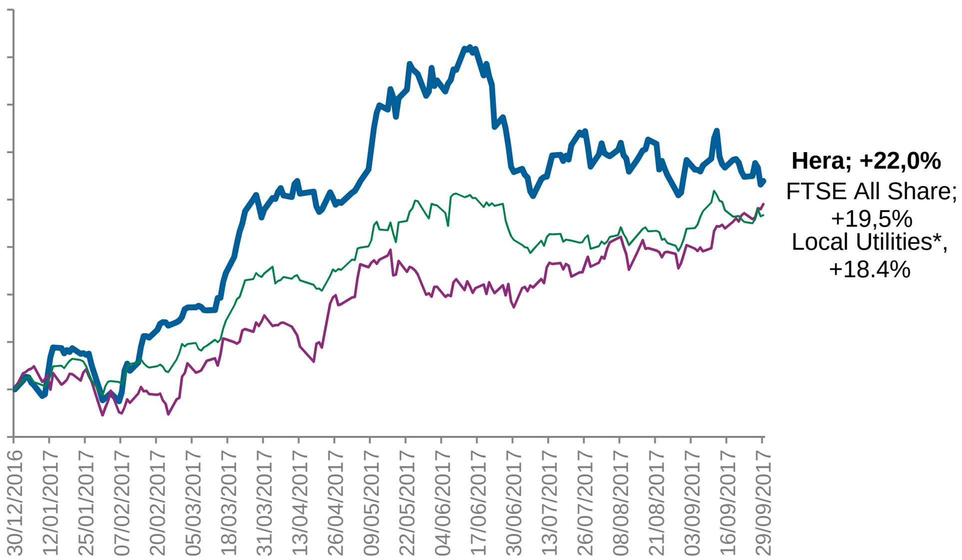
The improvement of macroeconomic indicators supports growth in the stock markets

European stock markets reported widespread increases in the first nine months of 2017, supported by the general improvement of macroeconomic data and reduction of the political risk associated with the results of the French and Dutch elections. Oversea markets likewise reported positive performance, reaching historic highs as far as expectations for growth in corporate earnings and the approval of the fiscal stimulus measures promised by the U.S. administration.

The FTSE Mib, one of the main indexes, displayed the best performance (+ 18.0%) thanks to the growth of the banking sector, which benefited from the comprehensive saving of the banks in crisis and the strengthening of the country's prospects for economic growth. The utility sector, which outperformed the market in the first six months of the year, showed a slowdown in the third quarter. This trend is related to the generalized increase of bond yields taking place since the end of June, when fears of a progressive reduction of monetary stimuli by the ECB began, starting at the beginning of 2018.

In this context, the Hera share ended this quarter with a performance of + 22.0%, higher than both the market and the benchmark sector, reaching the official price of € 2.668 compared to a price of € 2.188 recorded at the end of 2016 and a capitalization of approximately 4.0 billion euros.

**2.668 €**
the price of Hera stock as at 30 September 2017. Hera outperforms the market and its own sector




** Not counting the Hera share as part of the basket of local utilities*

**0.09 €**
the dividend paid out, the fifteenth of an uninterruped series.

In line with the indications set out in the business plan, on 19 June Hera paid a dividend of 9 cents per share, the fifteenth in a series of periods of uninterrupted growth since being listed.

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | **2017** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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** |

**+204%**
Total shareholders' return from IPO

Thanks to the combination of continuously remunerating shareholders with dividends and raising the price of the stock, the total shareholders' return accrued since listing has constantly remained positive, even in the most difficult moments of the financial crisis, reaching over +204%. at the end of the period in question.

The financial analysts covering the title (Banca Akros, Banca IMI, Equita Sim, Intermonte, Kepler Cheuvreux, MainFirst and Mediobanca) confirm mainly positive opinions, almost entirely advising "Buy / Outperform". After the publication of the biannual results, which occurred in the thrid quarter of the year, the consensus target price was adjusted upwards to 3.01 € from the previous 2.96 €.

**3.01 €**
the average target price set by analysts

Breakdown of Group shareholders at 30/09/2017


**49.6%**
share capital held by members of the Stockholders' Agreement made up of public shareholders

The placement of 1.7% of public shareholders' share capital attracted twice as much demand as the offer

At 30 June, the corporate structure comprised 49.6% shares belonging to 118 public shareholders located across the geographical areas served and regulated by a Stockholders' Agreement signed on 26 June 2015 and in force for three years, as well as 50.4% floating shares.

On 23 June, in keeping with the Agreement, 13 Municipality shareholders sold, in a coordinated and transparent way, through an accelerated book building operation, roughly 25.7 million shares, corresponding to 1.7% of total share capital, to over 20 Italian and foreign institutional investors. Thanks to a demand that amounted to over twice the amount put on sale, the placing occurred at a price of Euro 2.79 per share, with the lowest discount seen on the market since the beginning of the year for similar operations, set at 3.3% of the price at closing time on the previous day. The placing led to a rise in floating stock, with clear benefits for trade liquidity.

Since 2006, Hera has adopted a share buyback program, renewed by the Shareholders' Meeting of 27 April 2017 for 18 additional months, for an overall maximum amount of 180 million euros. 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 period under review, Hera held 20.9 million treasury shares.

Dialogue with the market as an intangible asset

In the period in question, Hera's senior management engaged in an intense dialogue with investors, above all with its Business Plan Road Show in the first quarter and its participation in sector conferences in the remaining quarters.

The intensity and commitment that the Group puts into communicating with investors has helped reinforce its market reputation, which is now an intangible asset that provides a clear advantage for Hera's stock and its shareholders.

# 1.05 Reference scenario and Group strategy

**The results of internal growth**

A balanced development of the activity portfolio

In the first nine months of 2017, the growth strategy outlined in the industrial plan for 2020 continued to be implemented through both internal and external channels. During this period, the expansion of the customer base and new lots for the management of customers covered by a safeguard regime, which were acquired through a call for tender at the end of 2016, contributed to the development of the energy business. Concerning the management of waste treatment activities, the results benefited from a positive trend in both domestic growth leverages (prices and volume of activity, in addition to ongoing operational efficiency) as well as those for external lines, with the acquisition of Aliplast and a Teseco branch, fully consolidated beginning in this fiscal period. In terms of network management activities (water, gas, electricity and district heating), the Group continued its investment and efficiency maximization. The quality awards recently introduced by the Authority in water-related activities also contributed to the achievement of these results. The strategic orientation towards improving the quality of service proved to be essential during the summer, when the drought that hit Italy generating disruption and emergencies did not have any repercussions on the areas managed by the Group.

A risk-adverse strategy

The quarterly results confirm the Group's balance between regulated and free competition activities as well as its practice of maintaining flexible policies for supplying commodities, in line with the adverse risk strategy set out in the Industrial Plan for 2020.

The new business plan up to 2020

At present, the evolution of the sector cannot avoid engaging with issues such as circular economy, industry 4.0 and customer experience. These trends, while requiring a substantial rethinking of the company's model, accelerate the time involved in change and revolutionize our way of conceiving production processes, products and customer relations.

Future prospects for the sector

The business plan up to 2020 confirms the Group's current strategic outlook and aspires to continue pursuing sustainable growth in EBITDA, rising above one billion Euros at the end of the period, with a target of roughly 200 million Euros of growth over five years. The amount of growth foreseen will be sustained by the habitual development model, based on the propulsive force of two historical motors: internal and external growth. The investment plan, amounting to roughly 2.5 billion Euros, will be fully financed with the generation of cash flow without affecting the Group's financial solidity, even making room for an 11% increase in dividends per share, to be implemented progressively until 2020.

Strategic answers to new and evolving trends

Confirming the content of the previous business plan, this strategy will be supported by the usual four growth levers: growth, efficiency, innovation and excellence. This orientation, which has already proven its validity over recent years, is at the root of all the Group's main strategic projects envisaged for the next four years. A new element has furthermore been introduced in the most recent plan: agility, which meets the need to adapt to industrial factors following the rapid pace set by the evolution of the external scenario.

The operating levers and main factors driving the Group's growth have been fully confirmed by the results of the previous financial statements and are in line with the targets set. The novelty of the strategy up to 2020 consists, rather, in the way in which objectives will be pursued.

The strategy calls for an implementation of digitization in all business areas; this is a preparatory measure for a future transformation of processes, plants and infrastructures into smart networks, an internet of things, and the use of innovative technologies to improve energy and operational efficiency. Thanks to the use of advanced telecommunications tools (satellites, internet), the Group intends to move towards utility 4.0 within the period of time established in the plan.

The strategy through to 2020 also proves to be in line with the philosophy of a circular economy that drives sustainable management beyond the limits of the reuse and recycling of materials derived from sorted waste. The Group reached the targets in this area set by international organizations (EU and UN) well in advance of benchmarks, and over the next five years it will take a decisive step towards directly producing goods that can be re-located on the market through the use of recycled materials.
Lastly, the plan up to 2020 includes a strong focus on customer experience and related activities that enable customer relationship management tools to evolve.
The target is increasing capacity and speed in analyzing big data in order to put together strategies which improve the quality of the services offered by the Group as well as to identify commercial offers that better respond to customer needs.

The current strategic framework, consisting of the lines of development pursued in the past, is fully confirmed in the industrial plan to 2020 and is pushed towards physiological evolution, confirming the past and moving towards new imperatives of development.

Reported results in line with the forecasts indicated in the Plan

The growth in the economic results and financial management of the six-month period is in line with the forecasts of the five-year industrial plan, despite the fact that the majority of the negative effects forecasted by the plan concerning the reduction of regulated tariffs have already taken place and some source-based incentives from renewable sources have already ended and been assimilated.

## 1.05 Personnel structure

The Hera Group's employees with open-ended contracts as of 30 September 2017 number 8.673 (consolidated scope) and are distributed by role as follows: executive managers (156), middle managers (530), office clerks (4,593), and workers (3,394). This structure was determined by the following moves: hirings (160) and dismissals (-207) as well as the change in the scope of consolidation due to the entrance of Aliplast Group (293), Sinergie Ramo Sud e Isole (14),Teseco (46) and change in the scope due to the exit of Sigas (-7).

| Open-ended contracts | 30 Sept 17 | 31 Dec 16 | Change |
|---|---|---|---|
| Executive Managers | 156 | 151 | 5 |
| Middle Managers | 530 | 524 | 6 |
| Clerks | 4,593 | 4,514 | 79 |
| Workers | 3,394 | 3,185 | 209 |
| **Total** | **8,673** | **8,374** | **299** |

Specifically, the actual moves are as follows:

| Open-ended contracts | |
|---|---|
| **Resources as of 31 December 2016** | 8,374 |
| Entries | 160 |
| Leaving | -270 |
| **Net flows** | -47 |
| **Change in the scope entrance** | 353 |
| **Change in the scope exit** | -7 |
| **Total** | **8,673** |

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 is balanced by the addition of analogous long-term hires who gradually entered into open-ended processes of consolidation.
- The change in the scope of consolidation due to the entrance of Aliplast Group, Sinergie Ramo Sud and Isole, Teseco; and the change in the scope due to the exit of Sigas.

CHAPTER 2

# CONSOLIDATED FINANCIAL STATEMENTS OF THE HERA GROUP

# 2.01 Financial statement formats

## 2.01.01 Income statement

| mln/euro | '30-sept-2017 (9 months) | '30-sept-2016 (9 months) adjusted |
|---|---|---|
| Revenues | 4,027.8 | 3,615.5 |
| Other operating revenues | 327.3 | 259.9 |
| Use of raw materials and consumables | (1,776.4) | (1,437.4) |
| Service costs | (1,428.6) | (1,382.7) |
| Personnel costs | (409.1) | (390.1) |
| Other operating costs | (45.3) | (34.7) |
| Capitalised costs | 29.0 | 20.0 |
| Amortisation, depreciation,provisions | (366.8) | (321.3) |
| **Operating profit** | **357.9** | **329.2** |
| Portion of profits (loss) pertaining to joint ventures and associated companies | 9.2 | 8.0 |
| Financial income | 79.5 | 85.2 |
| Financial expense | (163.2) | (183.4) |
| **Financial operations** | **(74.5)** | **(90.2)** |
| Other non-recurring non-operating income | - | - |
| **Pre-tax profit** | **283.4** | **239.0** |
| Taxes | (90.6) | (87.2) |
| **Net profit for the period** | **192.8** | **151.8** |
| Attributable to: | | |
| Shareholders of the Parent Company | 182.9 | 142.2 |
| Non-controlling interests | 9.9 | 9.6 |
| **Earnings per share** | | |
| **basic** | **0.124** | **0.097** |
| **diluted** | **0.124** | **0.097** |

## 2.01.02 Financial position

| mln/euro | 30 Sept 2017 | '31 Dec 2016 as adjusted |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Property,plant and equipment | 2,010.2 | 2,019.2 |
| Intangible assets | 3,101.9 | 2,968.0 |
| Goodwill | 375.0 | 375.7 |
| Equity investments | 148.4 | 148.5 |
| Non-current financial assets | 134.6 | 110.2 |
| Deferred tax assets | 85.0 | 80.3 |
| Financial instruments - derivatives | 99.3 | 109.5 |
| **Total non-current assets** | **5,954.4** | **5,811.4** |
| **Current assets** | | |
| Inventories | 145.9 | 104.5 |
| Trade receivables | 1,595.7 | 1,672.0 |
| Current financial assets | 38.3 | 29.4 |
| Current tax assets | 94.7 | 33.9 |
| Other current assets | 305.6 | 225.9 |
| Financial instruments - derivatives | 32.0 | 56.5 |
| Cash and cash equivalents | 388.2 | 351.5 |
| **Total current assets** | **2,600.4** | **2,473.7** |
| Non-current assets held for sale | | |
| **TOTAL ASSETS** | **8,554.8** | **8,285.1** |

*Cont.*

| mln/euro | 30 Sept 2017 | '31 Dec 2016 as adjusted |
|---|---|---|
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | |
| **Share capital and reserves** | | |
| Share capital | 1,467.9 | 1,468.1 |
| Reserves | 819.0 | 742.5 |
| Profit (loss) for the period | 182.9 | 207.3 |
| **Group equity** | **2,469.8** | **2,417.9** |
| Non-controlling interests | 146.3 | 144.2 |
| **Total equity** | **2,616.1** | **2,562.1** |
| **Non-current liabilities** | | |
| Non-current financial liabilities | 2,901.3 | 2,933.1 |
| Employee leaving indemnity and other benefits | 141.4 | 145.8 |
| Provisions for risks and charges | 412.1 | 397.6 |
| Deferrred tax liabilities | 49.7 | 27.2 |
| Financial instruments - derivatives | 45.9 | 44.1 |
| **Total non-current liabilities** | **3,550.4** | **3,547.8** |
| **Current liabilities** | | |
| Current financial liabilities | 323.2 | 182.3 |
| Trade payables | 1,175.6 | 1,274.1 |
| Current tax liabilities | 106.1 | 21.0 |
| Other current liabilities | 751.8 | 633.0 |
| Financial instruments - derivatives | 31.6 | 64.8 |
| **Total current liabilities** | **2,388.3** | **2,175.2** |
| **TOTAL LIABILITIES** | **5,938.7** | **5,723.0** |
| **TOTAL EQUITY AND LIABILITIES** | **8,554.8** | **8,285.1** |

## 2.01.03 Cash flow statement

| mln/euro | 30 Sept 2017 | 30 Sept 2016 |
|---|---|---|
| **Pre-tax profit** | **283.4** | **239.0** |
| **Adjustments to reconcile net profit to the cashflow from operating activities:** | | |
| Amortisation and impairment of property, plant and equipment | 123.4 | 115.6 |
| Amortisation and impairment of intangible assets | 152.5 | 136.5 |
| Allocations to provisions | 90.9 | 69.2 |
| Effect of valuation using the equity method | (9.2) | (8.0) |
| Financial expense / (Income) | 83.7 | 98.2 |
| (Capital gains) / Losses and other non-monetary elements (including valuation of commodity derivatives) | (8.4) | (18.5) |
| Change in provisions for risks and charges | (22.0) | (17.3) |
| Change in provisions for employee benefits | (6.0) | (6.2) |
| **Total cash flow before changes in net working capital** | **688.3** | **608.5** |
| (Increase) / Decrease in inventories | (32.8) | (4.5) |
| (Increase) / Decrease in trade receivables | 20.8 | 99.3 |
| Increase / (Decrease) in trade payables | (118.2) | (74.5) |
| (Increase) / Decrease in other current assets/ liabilities | 46.7 | (11.9) |
| **Change in working capitals** | **(83.5)** | **8.4** |
| Dividends collected | 11.0 | 9.8 |
| Interests income and other financial income collected | 31.2 | 19.4 |
| Interests expense and other financial charges paid | (83.5) | (93.0) |
| Taxes paid | (74.8) | (63.3) |
| **Cash generated from operating activity (a)** | **488.7** | **489.8** |
| Investments in property, plant and development | (85.6) | (83.1) |
| Investments in intangible fixed assets | (191.7) | (168.4) |
| Investments in companies and business units net of cash and cash equivalents | (95.8) | (5.4) |
| Sale price of property,plant and equipment and intangible assets (including lease-back transations) | 2.0 | 8.1 |
| Divestment of unconsolidated companies and contingent consideration | 0.1 | 0.2 |
| (Increase) / Decrease in other investment activities | (32.7) | 18.6 |
| **Cash flow from (for) investing activities (b)** | **(403.7)** | **(230.0)** |
| New issues of long-term bonds | - | - |
| Repayments and other net changes in borrowings | 97.0 | (271.3) |
| Lease finance payments | (2.6) | (2.8) |
| Investments in consolidated companies | (1.6) | - |
| Share capital increase | 0.2 | - |
| Dividends paid out to Hera shareholders and non-controlling interests | (140.9) | (144.4) |
| Change in treasury shares | (0.4) | (3.6) |
| Other minor changes | - | - |
| **Cash flow from (for) financing activities (c)** | **(48.3)** | **(422.1)** |
| **Effect of change in exchange rates on cash and cash equivalents (d)** | **-** | **-** |
| **Increase / (Decrease) in cash and cash equivalents (a+b+c+d)** | **36.7** | **(162.3)** |
| Cash and cash equivalents at the beginning of the period | 351.5 | 541.6 |
| Cash and cash equivalents at the end of the period | 388.2 | 379.3 |

## 2.01.04 Overview of changes in equity

| mln/euro | Share capital | Reserves | Derivatives hedging instruments | Provisions for employee benefits | Profit for the period | Equity | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2015** | **1,474.2** | **729.8** | **(0.6)** | **(25.5)** | **180.5** | **2,358.4** | **144.7** | **2,503.1** |
| Profit for the period | | | | | 142.2 | **142.2** | 9.6 | **151.8** |
| Other components of comprehensive income at 30 September 2016: | | | | | | | | |
| Fair value of derivatives, change in the period | | | 0.1 | | | **0.1** | 0.2 | **0.3** |
| Actuarial income/(losses) post-employment benefits | | | | (6.7) | | **(6.7)** | (0.6) | **(7.3)** |
| Other comprehensive income items companies measured with the equity method | | 0.1 | | | | **0.1** | | **0.1** |
| **Comprehensive Income for the period** | | **0.1** | **0.1** | **(6.7)** | **142.2** | **135.7** | **9.2** | **144.9** |
| Change in treasury shares | (1.2) | (2.4) | | | | **(3.6)** | | **(3.6)** |
| Payment for non-controlling shares | | | | | | **-** | | **-** |
| Change in equity interests | | 2.1 | | | | **2.1** | (2.1) | **-** |
| Change in the scope of consolidation | | | | | | **-** | | **-** |
| Other movements | | | | | | **-** | | **-** |
| Allocation of 2015 profit : | | | | | | | | |
| - dividends paid out | | - | | | (132.5) | **(132.5)** | (11.4) | **(143.9)** |
| - allocation to ohter reserves | | 39.5 | | | (39.5) | **-** | | **-** |
| - undistributed profits to retained to retained earnings | | 8.5 | | | (8.5) | **-** | | **-** |
| **Balance at 30 September 2016** | **1,473.0** | **777.6** | **(0.5)** | **(32.2)** | **142.2** | **2,360.1** | **140.4** | **2,500.5** |
| **Balance at 31 December 2016** | **1,468.1** | **772.4** | **(0.4)** | **(29.5)** | **207.3** | **2,417.9** | **144.2** | **2,562.1** |
| Profit for the period | | | | | 182.9 | **182.9** | 9.9 | **192.8** |
| Other components of comprehensive income at 30 September 2017 : | | | | | | | | |
| Fair value of derivatives, change in the period | | | 1.2 | | | **1.2** | 0.2 | **1.4** |
| Actuarial income/(losses) post-employment benefits | | | | 1.0 | | **1.0** | | **1.0** |
| Other comprehensive income items companies measured with the equity method | | 0.1 | | | | **0.1** | | **0.1** |
| **Comprehensive Income for the period** | | **0.1** | **1.2** | **1.0** | **182.9** | **185.2** | **10.1** | **195.3** |
| Change in treasury shares | (0.2) | (0.3) | | | | **(0.5)** | | **(0.5)** |
| Payment for non-controlling shares | | | | | | **-** | 0.2 | **0.2** |
| Change in equity interests | | (0.4) | | | | **(0.4)** | (1.3) | **(1.7)** |
| Change in the scope of consolidation | | | | | | **-** | 1.1 | **1.1** |
| Other movements | | | | | | **-** | | **-** |
| Allocation of 2016 profit : | | | | | | | | |
| - dividends paid out | | - | | | (132.4) | **(132.4)** | (8.0) | **(140.4)** |
| - allocation to ohter reserves | | 12.3 | | | (12.3) | **-** | | **-** |
| - allocation to retained earnings | | 62.6 | | | (62.6) | **-** | | **-** |
| **Balance at 30 September 2017** | **1,467.9** | **846.7** | **0.8** | **(28.5)** | **182.9** | **2,469.8** | **146.3** | **2,616.1** |

## 2.01.05 Synthetic explanatory notes

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 30 September 2017.

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

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

The figures in this consolidated three-month report are comparable to those of previous periods, taking into account the provisions of paragraph 1.01.01, in particular with regard to the effects of reporting in the income statement the costs associated with the electricity and gas systems. The comparison of the individual items of the income and financial position statements must also take into account the changes in the scope of consolidation outlined in the specific section.

### Financial statement formats

The formats used are the same as those used for the consolidated financial statements as of 31 December 2016, except for the comprehensive income statement, which is not included here. The other components of the comprehensive income statement are shown separately, in Statement of changes in equity, if their amounts are significant. A vertical format has been used for the income statement, with individual items analysed by type. This presentation, also used by the company's major competitors, is considered consistent with international practice and is the one that best represents the company's performance. The Statement of financial position makes a distinction between current and non-current assets and liabilities. The Cash flow statement has been prepared using the indirect method.

The financial reports include as a separate document any potential non-current expenses and revenues.

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

### Scope of consolidation

This consolidated three-month report includes the financial statements of the parent company, Hera Spa, and its subsidiaries. Control is secured 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. Small-scale subsidiaries and those in which the exercise of voting rights is subject to substantial and long-term restrictions as well as companies acquired over the course of the most recent period and not yet integrated in the Group's accounting processes are excluded from line-by-line consolidation and valued at cost.

Equity investments in joint ventures, in which the Hera Group exercises joint control with other companies, are consolidated using 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 are carried at cost.

Companies held exclusively for future sale are excluded from consolidation and valued at their fair value or, if fair value cannot be determined, 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 2017 financial year as compared to the consolidated financial statement as of 31 December 2016.

| Acquisition of control | Loss of control/deconsolidation |
|---|---|
| Aliplast Spa (1) | |
| Alimpet Srl (1) | |
| Alipackaging Srl (1) | |
| Aliplast France Recyclage Sarl (1) | |
| Aliplast Iberia SL (1) | |
| Aliplast Polska SP O.O. (1) | |
| Cerplast Srl (1) | |
| Umbroplast Srl (1) | |
| Variplast Srl (1) | |
| Business unit "Teseco" | |
| Business unit "Enerpeligna" | |

(1): companies acquired as part of the business combination with the Aliplast Group

On January 11, 2017 Herambiente Spa signed a binding agreement with Aligroup Srl for the acquisition of the Aliplast Group, active in Italy and abroad in the recycling of plastic waste and their regeneration through the production of polymers and films. In order to implement this agreement, which also provides for a late payment of part of the consideration, the transaction was completed on 3 April 2017, allowing the Hera Group to gain full control of the companies. The cash outlay for the acquisition was approximately 93.1 million euros and the merger led to the temporary registration of a client list amounting to 91 million euros. The assessment of the net assets acquired is still ongoing.

On 1 February 2017, Waste Recycling Spa acquired from Teseco Srl the corporate branch "Business Unit Impianti", comprising the organized assets for carrying out waste treatment in the provinces of Pisa and Livorno. The cash outlay for the acquisition totalled 8.6 million euros.

Taking effect 1 May 2017, a share capital increase was approved for Gran Sasso Srl, a subsidiary company of Hera Comm Srl, fully approved by the third party company Enerpeligna Srl by transferring a branch relating to the sale of natural gas and other energy sources. At the same time, Enerpeligna Srl sold its controlling interest, equal to 9.1% of the share capital, of Hera Comm Srl. The cash outlay for the acquisition was approximately 0.9 million euros and the merger led to the registration of a client list amounting to 1.3 million euros.

## Changes in ownership interest

On 27 June 2017 AcegasApsAmga Spa acquired the entirety of the remaining shares of the Bulgarian company Aresgas AD, becoming the sole shareholder.

On 27 June 2017, Aliplast Spa, which was acquired in the first half of 2017, purchased the entirety of minority shares held by the remaining shareholders in Umbro Plast Srl (10% of the share capital), Cerplast Srl (40% of the share capital), Variplast Srl (10% of the share capital) and Alipackaging Srl (20% of the share capital). Subsequently, on 28 September

2017, a purchase was made involving the minority shares in Aliplast France Recyclage Sarl (10% of the share capital) and Aliplast Iberia SL (equal to 1.07% of the share capital). The acquisition of all minority shares entailed an overall cash outlay of approximately 1.6 million euros.

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

Effective 1 January 2017, the wholly consolidated company Biogas 2015 Srl was merged by incorporation into the parent company Herambiente Spa.

Beginning 1 January 2017, Heratech Srl, wholly owned by the parent company Hera Spa, became operational by virtue of the transfer of the business units related to engineering and analysis laboratories.

Beginning 1 January 2017, Marche Multiservizi Falconara Srl, wholly owned by the parent company Marche Multiservizi Spa, became operational by virtue of the transfer of the business units carrying out public utility services in the Municipality of Falconara (AN).

Beginning with this three-month report of 30 September 2017, as a result of the management's intentions to sell SiGas d.o.o. and consequently initiate a selling plan, the company is classified as a group held for sale purposes. However, as the assets and economic values of the company are totally irrelevant, they are not reported in dedicated sections in these financial statement formats.

The value of the equity investments as at 30 September 2017 reflects the registration of 100% of the registered capitalof Verducci Servizi Srl, an Abruzzo-based company operating in the natural gas and electricity supply market. As of 6 July 2017 the first part of the company's purchase price was paid and its final price is currently being established. It should also be noted that full consolidation as at the date of this report was not completed since the company’s economic and financial information is not available.

## Profit per share

Here below is the table outlining profits per share, calculated on the basis of the economic profit to be allocated to the holders of ordinary shares in the parent company.

| | 30-sept-2017 (9 months) | 30-sept-2016 (9 months) |
|---|---|---|
| Profit (loss) for the period attributable to holders of ordinary shares of the Parent Company (A) | 182.9 | 142.2 |
| Weighted average number of shares outstanding for the purposes of calculation of earnings (loss) | | |
| - basic (B) | 1,469,912,969 | 1,472,842,222 |
| - diluted (C) | 1,469,912,969 | 1,472,842,222 |
| **Earnings (loss) per share (euro)** | | |
| **- basic (A/B)** | **0.124** | **0.097** |
| **- diluted (A/C)** | **0.124** | **0.097** |

## Other information

This three-month consolidated financial statement as at 30 September 2017 was drawn up by the Board of Directors and approved by the same at the meeting held on 8 November 2017.

## 2.02 Net financial debt

| mln/euro | | 30 Sept 2017 | 31 Dec 2016 |
|---|---|---|---|
| **a** | **Cash and cash equivalents** | **388.2** | **351.5** |
| **b** | **Other current financial receivables** | **38.3** | **29.4** |
| | Current bank debt | (123.1) | (72.1) |
| | Current portion of bank debt | (54.7) | (71.7) |
| | Other current financial liabilities | (143.4) | (36.2) |
| | Finance lease payables due within 12 months | (2.0) | (2.3) |
| **c** | **Current financial debt** | **(323.2)** | **(182.3)** |
| **d=a+b+c** | **Net current financial debt** | **103.3** | **198.6** |
| | Non-current bank debt and bonds issued | (2,829.4) | (2,847.8) |
| | Other non-current financial liabilities | (4.1) | (5.0) |
| | Lease payments due after 12 months | (14.4) | (14.9) |
| **e** | **Non-current financial debt** | **(2,847.9)** | **(2,867.7)** |
| **f=d+e** | **Net debt - CONSOB Communication No 15519/2006** | **(2,744.6)** | **(2,669.1)** |
| **g** | **Non-current financial receivables** | **134.6** | **110.2** |
| **h=f+g** | **Net financial debt** | **(2,610.0)** | **(2,558.9)** |

# 2.03 LIST OF CONSOLIDATED COMPANIES

**Subsidiaries**

| Name | Registered office | Share capital | % 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% |
| Aliplast Spa | Ospedaletto (Istrana -TV) | 5,000,000 | | 30.00% | 30.00% |
| Alimpet Srl | Borgolavezzaro (NO) | 50,000 | | 30.00% | 30.00% |
| Alipackaging Srl | Zero Branco (TV) | 20,000 | | 30.00% | 30.00% |
| Aliplast France Recyclage Sarl | La Wantzenau (France) | 25,000 | | 30.00% | 30.00% |
| Aliplast Iberia SL | Onda (Spain) | 815,000 | | 30.00% | 30.00% |
| Aliplast Polska SP O.O. | Zgierz (Poland) | 200.000 Zloty | | 30.00% | 30.00% |
| Amga Calore & Impianti Srl | Udine | 119,000 | | 100.00% | 100.00% |
| Amga Energia & Servizi Srl | Udine | 600,000 | | 100.00% | 100.00% |
| Aresgas AD | Sofia (Bulgaria) | 22.572.241 Lev | | 100.00% | 100.00% |
| ASA Scpa | Castelmaggiore (BO) | 1,820,000 | | 38.25% | 38.25% |
| Black Sea Gas Company E. o.o.d | Varna (Bulgaria) | 5.000 Lev | | 100.00% | 100.00% |
| Cerplast Srl | Formigine (MO) | 100,000 | | 30.00% | 30.00% |
| EnergiaBase Trieste Srl | Padova | 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 | | 72.01% | 72.01% |
| Hera Luce Srl | San Mauro Pascoli (FC) | 1,000,000 | 100.00% | | 100.00% |
| Hera Servizi Energia Srl | Forlì | 1,110,430 | | 57.89% | 57.89% |
| Heratech Srl | Bologna | 1,000,000 | 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 | 13,484,242 | 49.59% | | 49.59% |
| Marche Multiservizi Falconara Srl | Falconara Marittima (AN) | 100,000 | | 49.59% | 49.59% |
| Medea Spa | Sassari | 4,500,000 | 100.00% | | 100.00% |
| SiGas d.o.o | Pozega (Serbia) | 263.962.537 Rsd | | 95.78% | 95.78% |
| Sinergie Spa | Padova | 11,168,284 | | 100.00% | 100.00% |
| Sviluppo Ambiente Toscana Srl | Bologna | 10,000 | 95.00% | 3.75% | 98.75% |
| Tri-Generazione Scarl | Padova | 100,000 | | 70.00% | 70.00% |
| Umbroplast Srl | Gualdo Cattaneo (PG) | 98,800 | | 30.00% | 30.00% |
| Uniflotte Srl | Bologna | 2,254,177 | 97.00% | | 97.00% |
| Variplast Srl | Quinto di Treviso (TV) | 50,000 | | 30.00% | 30.00% |
| Waste Recycling Spa | Santa Croce sull'Arno (PI) | 1,100,000 | | 75.00% | 75.00% |

**Jointly Controlled Companies**

| Name | Registered office | Share capital | % held | | 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% |

**Associated Companies**

| Name | Registered office | Share capital | % 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 Company's share capital is composed of € 67,577,681 of ordinary shares and € 10,450,000 of related shares

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