

# Consolidate quarterly report



as at 30 september 2016





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### **GOVERNANCE AND CONTROL BODIES**

Board of Directors	<b>T T</b>
Chairman	Tomaso Tommasi di Vignano
CEO	Stefano Venier
Vice-Chairman	Giovanni Basile
Director	Mara Bernardini
Director	Forte Clò
Director	Giorgia Gagliardi
Director	Massimo Giusti
Director	Riccardo Illy
Director	Stefano Manara
Director	Luca Mandrioli
Director	Danilo Manfredi
Director	Cesare Pillon
Director	Tiziana Primori
Director	Bruno Tani
<b>Board of Statutory Auditors</b>	
Chairman	Sergio Santi
Standing Auditor	Antonio Gaiani
Standing Auditor	Marianna Girolomini
Control and Risk Committee	
Chairman	Giovanni Basile
Member	Massimo Giusti
Member	Stefano Manara
Member	Danilo Manfredi
Remuneration Committee	
Chairman	Giovanni Basile
Member	Mara Bernardini
Member	Luca Mandrioli
Member	Cesare Pillon
Executive Committee	
Chairman	Tomaso Tommasi di Vignano
Vice-Chairman	Giovanni Basile
Member	Stefano Venier
Member	Riccardo Illy
Ethics Committee	
Claritina au	Massimo Giusti
Chairman	
Member	Mario Viviani
Member Member	Mario Viviani Filippo Maria Bocchi
Member	

### MISSION

"Hera's goal is to be the best multi-utility in Italy for its customers, workforce and shareholders. It aims to achieve this through further development of an original corporate model capable of innovation and of forging strong links with the areas in which it operates by respecting the local environment".

"For Hera to be the best means to represent a reason for 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 areas, because economic, social and environmental health represent the promise of a sustainable future; and suppliers, key elements in the value chain and partners for growth".





# 1.01 ECONOMIC AND FINANCIAL PERFORMANCE OVERVIEW AND ALTERNATIVE PERFORMANCE MEASURES DEFINITIONS

# Economic indicators and investments

Economic indicators and investments (€mln)	Sept 2016	Sept 2015	Abs. change	% change
Revenues	3,104.8	3,246.4	-141.6	-4.4%
EBITDA	650.6	640.2	+10.4	+1.6%
EBITDA/Revenues	21.0%	19.7%	-1.3 p.p.	
EBIT	329.2	317.3	+11.9	+3.8%
EBIT/Revenues	10.6%	9.8%	-0.8 p.p.	
Net profit	151.8	134.9	+16.9	+12.5%
Net profit/Revenues	4.9%	4.2%	-0.7 p.p.	
Net investments	241.2	220.6	+20.6	+9.3%

Economic and financial indicators

Economic and financial indicators (€mln)	Sept 2016	Dec 2015	Abs. change	% change
Net fixed assets	5,521.2	5,511.3	+9.9	+0.2%
Net working capital	82.1	157.0	-74.9	-47.7%
Provisions	(535.8)	(513.5)	-22.3	-4.3%
Net invested capital	5,067.5	5,154.8	-87.3	-1.7%
Net financial debt	(2,567.0)	(2,651.7)	+84.7	+3.2%

Definition of Alternative Performance Measures (APM) The Hera Group uses Alternative Performance Measures (APM) to more effectively convey information about the profitability of the business 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 12/3/2015, the content and criterion for determining the Alternative Performance Indicators used in this financial statement are explained below.

Economic APMs and Investments

The **EBITDA** is an operating performance indicator and is calculated as "EBIT" plus "Depreciation, amortization and provisions." This measure is used as the financial target in internal presentations (business plans) and external presentations (to analysts and investors), and is a useful measure for evaluating the operating performance of the Group (as a whole, and at the level of each Business Unit), including by comparing the operating profitability of the reporting period with that of previous periods. In this way it is possible to analyze trends and compare the efficiency achieved in different periods.

The EBITDA on revenues, EBIT on revenues and Net profit on revenues are used as the financial target in internal presentations (business plans) and external presentations (to analysts and investors) and they measure the Group's operating performance by representing a proportion, in

terms of percentage, of the gross operating margin, operating profit and net profit divided by the value of Revenues.

**Net investments** are calculated as investments in property, plant and equipment, intangible assets and non-controlling interests net of capital contributions. This measure is used as the financial target in internal presentations (business plans) and external presentations (to analysts and investors), and is a useful measure for evaluating the spending capacity in terms of investments in maintenance and development of the Group (as a whole and at the level of each Business Unit), including through comparison with previous periods. In this way it is possible to analyze trends and compare the efficiency achieved in different periods.

# Economic and financial APMs

**Net non-current assets** are calculated as the sum of: property, plant and equipment; Intangible assets and goodwill; non-controlling interests; and Deferred tax assets and liabilities. This measure is used as the financial target in internal presentations (business plans) and external presentations (to analysts and investors), and is a useful measure for evaluating the Group's net assets as a whole, including through 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 calculated as the sum of: Inventories; Trade receivables and payables; Current tax assets and liabilities; Other current assets and liabilities; and Current assets and liabilities for commodity derivatives. This measure is used as the financial target in internal presentations (business plans) and external presentations (to analysts and investors), and is a useful measure for evaluating the Group's ability to generate cash flow through operating activities over a period of 12 months, including through comparison with previous periods. In this way it is possible to analyze trends and compare the efficiency achieved in different periods.

**Funds** includes the sum of the items "Post-employment and other benefits" and "Provisions for risks and charges". This measure is used as the financial target in internal presentations (business plans) and external presentations (to analysts and investors), and is a useful measure for evaluating the Group's ability to cope with possible future liabilities, including through 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 the sum of "Net non-current assets", "Net working capital" and "Funds". This measure is used as the financial target in internal presentations (business plans) and external presentations (to analysts and investors), and is a useful measure for evaluating all of the Group's current and non-current operating assets and liabilities, as specified above.

**Net borrowings** 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 the financial target in internal presentations (business plans) and external presentations (to analysts and investors), and is a useful measure for evaluating the Group's financial debt, including through comparison with prior periods. In this way it is possible to analyze trends and compare the efficiency achieved in different periods.

The item **source of financing** is calculated as the sum of "net borrowings" and "equity". This measure is used as the financial target in internal presentations (business plans) and external presentations (to analysts and investors) and represents the breakdown of funding sources distinguishing between the company's own equity and that of third parties; this is an indicator of the Group's financial autonomy and solidity.

### 1.01.01 OPERATING RESULTS

Constant results maintained

At the end of the first nine months of 2016, the Hera Group shows growth in all economic indicators, even when faced with an increasingly challenging context as defined by various competitive and regulatory factors. The Hera Group has proved able to manage this scenario and operate in a balanced and dynamic way: a comparison with the previous year, in fact, shows EBITDA rising by 1.6%, operating income by 3.8% and net profits by 12.5%.

The main corporate and business operations that led to changes in the Group's corporate structure as of 30 September 2016 were as follows:

- As of 1 November 2015, Biogas 2015 became part of the Group's corporate structure.
   This company's activities include energy recovery and energy production from waste recycling, as well as constructing, installing and managing the plants involved.
- On 23 December 2015 Herambiente acquired 100% of shareholding in Waste Recycling Spa, which is involved in special waste treatment and recovery in the province of Pisa and in turn holds shares in Rew Trasporti Srl and Neweco Srl. During the second half of 2016 the two controlled companies were merged into Waste Recycling Spa.
- As of 1 December 2015 Herambiente acquired effective control of a number of business branches from Geo Nova Spa, taking over in particular the dangerous and nondangerous waste storage plant in San Vito al Tagliamento (Pordenone) and the active landfills for non-dangerous waste located in Loria (Treviso) and Sommacampagna (Verona).
- On 29 December 2015 Hera Spa transferred 90% of the company Hera Energie Rinnovabili to third parties; subsequently renamed Aloe Spa, it is no longer part of the Group's consolidated scope.
- On 30 December 2015, AcegasApsAmga Spa divested its shares held in Trieste Onoranze e Trasporti Funebri.
- On 8 April 2016 Hera Comm Srl was definitively awarded the tender announced by the Municipality of Giulianova for the acquisition of 100% of the share capital of Julia Servizi Più, a gas and electricity sales company operating in the area surrounding Teramo.
- Effective as of 1 July 2016, Hera Spa conferred its business branch dedicated to activities in the sector of electricity and gas distribution to Inrete Distribuzione Energia Spa. This company was established to manage activities in natural gas and electricity distribution coherently with the requirements concerning functional and accounting unbundling foreseen by the regulations of the Authority fo Electricity, Gas and Water System (Aeegsi) for enterprises operating in the electricity and gas sectors, aimed at improving competitiveness, efficiency and quality in providing energy services.

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.

The table below shows the economic results as at 30 September 2016 and 2015:

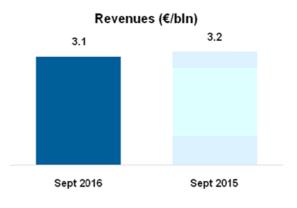
# Constant and expanding increases

Income statement (€min)	Sept 2016	% Inc.	Sept 2015	% Inc.	Abs. change	% change
Revenues	3,104.8		3,246.4		-141.6	-4.4%
Other operating revenues	259.9	8.4%	226.0	7.0%	+33.9	+15.0%
Raw materials	(1,437.4)	-46.3%	(1,613.2)	-49.7%	-175.8	-10.9%
Service costs	(872.0)	-28.1%	(815.4)	-25.1%	+56.6	+6.9%
Other operating costs	(34.7)	-1.1%	(40.9)	-1.3%	-6.2	-15.1%
Personnel costs	(390.1)	-12.6%	(380.5)	-11.7%	+9.6	+2.5%
Capitalised costs	20.0	0.6%	17.9	0.6%	+2.1	+11.8%
EBITDA	650.6	21.0%	640.2	19.7%	+10.4	+1.6%
Amort. & Prov.	(321.3)	-10.3%	(323.0)	-9.9%	-1.7	-0.5%
Operating profit	329.2	10.6%	317.3	9.8%	+11.9	+3.8%
Financial operations	(90.2)	-2.9%	(98.8)	-3.0%	-8.6	-8.7%
Pre-tax profit	239.1	7.7%	218.4	6.7%	+20.7	+9.5%
Taxes	(87.2)	-2.8%	(83.5)	-2.6%	+3.7	+4.4%
Net profit for the period	151.8	4.9%	134.9	4.2%	+16.9	+12.5%
Attributable to: Shareholders of the Parent Company Non-controlling interests	<b>142.2</b> 9.6	<b>4.6%</b> 0.3%	<b>125.0</b> 9.9	<b>3.9%</b> 0.3%	<b>+17.2</b> -0.3	<b>+13.8%</b> -2.8%

# Revenues at €3.1 billion

In the first nine months of 2016, revenues amounted to € 3,104.8 million, down € 141.6 million or roughly 4.4% compared to the € 3,246.4 million seen in the same period in 2015. Various factors are responsible for this decrease: revenues from electricity and gas sales and trading were down by roughly € 180 million following a drop in the price of raw materials; in regulated gas, electricity

and water cycle services, the drop of roughly € 25.6 million is due to the change in the rate of return on invested capital; lastly, a different classification in the items "revenues" e "other operating income" amounting to roughly € 15 million has been included. The following figures show growth: revenues for greater volumes of gas sold coming to roughly € 4.1 million; a greater portion of



pass-through revenue related to non-network distribution, coming to roughly € 12.0 million, revenues from the environment area, owing to both an increase in waste disposed of coming to roughly € 48 million and, lastly, larger revenues covering greater services in regulated businesses.

For further details, see the analyses of the single business areas.

Other operating income grew compared to September 2015 by € 33.9 million, or 15.0%. This growth is mainly due to a larger contribution coming from energy savings certificates owing to an increase in the exchange price (roughly € 13 million), higher revenues ensuing from IFRIC 12 (€ 2.8 million), a greater contribution coming from sorted waste (€ 3.5 million), as well as a different classification, amounting to roughly € 15 million, of certificate sales revenues, passing from "revenues" to "other operating income".

The cost of raw and other materials dropped by € 175.8 million compared to the first nine months of 2015, showing a change of 10.9%. As with revenues, this fall is due to lesser volumes of gas purchased and lesser trading activity, as well as an overall decrease in the price of raw materials and a different accounting mechanism used for energy incentives.

Other operating costs grew by  $\le$  50.4 million overall ( $\le$  56.6 million in greater costs for services, and  $\le$  6.2 million in lesser operating expenses), which is mainly attributable to changes in the scope of consolidation ( $\le$  20.0 million), a rise in the cost of electricity and gas transmission and distribution, largely attributable to the pass-through revenues mentioned above ( $\le$  12.0 million), higher costs of disposal for the rise in volumes treated and greater IFRIC 12 costs ( $\le$  5 million).

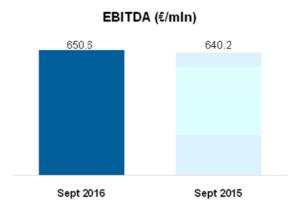
The cost of personnel rose by € 9.6 million or 2.5%, going from € 380.5 million at 30 September 2015 to € 390.1 million in the same period of 2016. This increase is mainly due to the salary raises provided for by the National labour agreement. The entrance of resources from companies in the Environment area and Julia Servizi Più is partially compensated by a reduction in the average presence.

Capitalised costs grew by € 2.1 million or 11.8% at September 2016 compared to the previous year.

EBITDA at €650.6 million (+1.6%)

EBITDA settled at € 650.6 million, recording a growth of € 10.4 million, or 1.6% on the same period in 2015. The growth in electricity compensates the drop in other business areas, thanks to greater EBITDA resulting from power plants, the good performance seen in the sales and trading

business and the contribution coming from distribution. This result is particularly significant considering that the first nine months of the year suffered from lesser revenues in gas, electricity and water distribution totalling € 25.6 million (respectively: € 8.5 in gas, € 2.2 in electricity and € 14.9 in water) following the reduction in return on invested capital in regulated sectors and inflation.

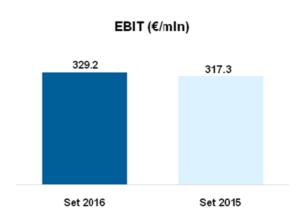


Amortisation, depreciation and provisions dropped overall by € 1.7 million or 0.5%, going from € 323.0 million in the first nine months of 2015, to € 321.3 million in the same period in 2016. The decrease in amortisation of landfills and WTE plants, along with the drop in provisions for third party assets in the gas area due to the duration of the concession in the Forlì-Cesena region, more than compensated the higher amortisation for new investments and the change in scope of Herambiente Group companies and Julia Servizi Più. A slight increase was seen in amortisations for the credit write-down fund.

EBIT at €329.2 million (+3.8%)

EBIT at 30 September 2016 amounted to €329.2 million, up €11.9 million or 3.8% over the €317.3 seen in the same period in 2015.

The results of financial management at the end of the third quarter of 2016 came to €90.2 million, improving by €8.6 million or 8.7% compared to the same period in 2015. This good performance is due to both lesser average debt and greater efficiency in rates obtained thanks to the reimbursement of a few loans, in addition to an optimisation of cash and cash equivalents.



In light of the above, pre-tax profits grew by € 20.7 million, going from € 218.4 million in the first nine months of 2015 to € 239.1 million in the same period of 2016.

Income taxes pertaining to the first nine months of 2016, which came to  $\in$  87.2 million, define a tax rate of 36.5%, an improvement compared to the 38.2% in the same period of the previous year. The reason for this decrease can largely be ascribed to the benefits deriving from the application of the "patent box" and tax credits for research and development, in addition to tax concessions for maxi amortisations. Also note that in the first nine months of 2016 lesser taxes related to previous years for a total of  $\in$  1.5 million were recorded, mainly resulting from an interpretation that is more consistent with legislation concerning a few changes caused by the application of las/lfrs.

Net profits therefore rose by 12.5%, equivalent to  $\le$  16.9 million, going from  $\le$  134.9 million in the first nine months of 2015 to  $\le$  151.8

Earnings post minorities at €142.2 million (+13.8%)

Group net profits amounted to € 142.2 million, rising by € 17.2 million compared to the first nine months of 2015, in line with Group profits.

million in the same period in 2016.



### 1.01.02 ANALYSIS OF THE GROUP'S FINANCIAL STRUCTURE AND INVESTMENTS

# The Group's magnitude increases

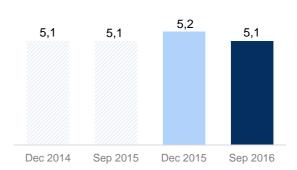
The table below shows changes in the Group's net invested capital and sources of financing for the period ended 30 September 2016:

Invested capital and sources of financing (€mln)	30 Sep 2016	Inc. %	31 Dec 2015	Inc. %	Abs. change	% change
Net non-current assets	5,523.2	108.9%	5,511.3	106.9%	+11.9	+0.2%
Net working capital	82.1	1.6%	157.0	3.0%	(74.9)	(47.7%)
(Funds)	(535.8)	-10.6%	(513.5)	-10.0%	(22.3)	+4.3%
Net invested capital	5,069.5	100.0%	5,154.8	100.0%	(85.3)	(1.7%)
Equity	(2,502.5)	49.4%	(2,503.1)	48.6%	+0.6	(0.0%)
Long-term borrowings	(2,729.0)	53.8%	(2,743.6)	53.2%	+14.6	(0.5%)
Net cash/short term borrowings	162.0	-3.2%	91.9	-1.8%	+70.1	+76.3%
Net financial debt	(2,567.0)	50.6%	(2,651.7)	51.4%	+84.7	(3.2%)
Total sources of financing	(5,069.5)	-100.0%	(5,154.8)	100.0%	+85.3	(1.7%)

# Net invested capital: €5.1 billion

At 30 September 2016, net invested capital dropped compared to 31 December 2015 by € 87.3 million. This change is related to the good performance of net working capital, which recorded a considerable decrease due to the good performance of trade receivables.

### Net invested capital (€bln)



Net investments rise to €241.2 million

Group investments came to € 241.2 million in the first three quarters of 2016, with a further € 10.5 million in capital grants, of which € 4.2 million for the New Investments Fund (FoNI), as provided for by the tariff method for the Integrated water service. Including capital grants, the Group's overall investments amounted to € 251.5 million. Net investments rose by € 20.6 million, going from € 220.6 million in September 2015 to € 241.2 million in September 2016.

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

Total investments (∉mln)	Sept 2016	Sept 2015	Abs.change	% change
Gas area	64.1	57.6	+6.5	+11.3%
Electricity area	16.7	15.1	+1.6	+10.6%
Water cycle area	93.1	91.6	+1.5	+1.6%
Waste management area	32.2	21.8	+10.4	+47.7%
Other services area	9.2	10.5	-1.3	-12.4%
Headquarters	36.3	33.0	+3.3	+10.0%
Total operating investments	251.5	229.5	+22.0	+9.6%
Total financial investments	0.2	0.4	-0.2	-50.0%
Total gross investments	251.7	230.0	+21.7	+9.4%
Capital contributions	10.5	9.3	+1.2	+12.9%
of which FoNI (New Investment Fund)	4.2	7.3	-3.1	-42.5%
Total net investments	241.2	220.6	+20.6	+9.3%

Strong commitment continues in operating investments in plants and infrastructures

Capital expenditure totalled € 251.5 million, up 9.6% over September 2015, and mainly concerned interventions on plants, networks and infrastructures. In addition, updating activities were performed as required by new regulations, mainly concerning gas distribution, with a large-scale metre substitution, and the purification and sewerage area.

Investments at headquarters in buildings, IT systems and vehicle fleet

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

At the Group's 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 rose by € 3.3 million compared to the same period in the previous year, an increase mainly due to substitutions of vehicles and equipment as well as work on corporate buildings.

Provisions come to €535.8 million

At September 2016, provisions amounted to € 535.8 million, growing compared to December 2015 thanks to provisions for the period in question, which covered usage expenses and the effects of the adjustment of the TFR fund, calculated according to actuarial criteria, and provisions following the enlargement of the Ravenna landfill.

€2.5 billion in equity

Equity was essentially in line with the figures seen at 31 December of the previous year, passing from € 2,503.1 million at 31 December 2015 to € 2,500.5 million at 30 September 2016, following a dividend payment totalling roughly € 144.0 million, more than compensated for by the results for the period, coming to € 151.8 million.

### 1.01.03 ANALYSIS OF NET CASH (NET BORROWINGS)

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

A strong financial position

(€min)		30 Sep 2016	31 Dec 2015
а	Cash and cash equivalents	379.3	541.6
b	Other current financial receivables	28.8	34.6
	Current financial debt	(96.3)	(129.2)
	Current bank debt	(86.2)	(284.9)
	Other current financial liabilities	(62.0)	(68.2)
	Finance lease payments maturing within 12 months	(1.6)	(2.0)
С	Current financial debt	(246.1)	(484.3)
d=a+b+c	Net current financial debt	162.0	91.9
	Non-current bank debt and bonds issued	(2,821.5)	(2,845.4)
	Other non-current financial liabilities	(5.2)	(5.8)
	Finance lease payments maturing after 12 months	(15.5)	(17.6)
е	Non-current financial debt	(2,842.2)	(2,868.8)
f=d+e	Net borrowings - Consob communication n° 15519/2006	(2,680.2)	(2,776.9)
g	Non-current financial receivables	113.2	125.2
h=f+g	Net financial debt	(2,567.0)	(2,651.7)

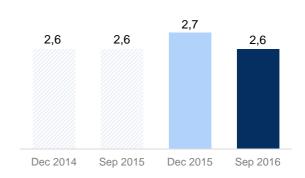
Current borrowings consist mainly in shares of bank loans reaching maturity for roughly  $\in$  85.4 million, accrued interest for roughly  $\in$  67 million and usage of current credit lines for roughly  $\in$  29 million. The amount of bank loans reaching maturity has fallen since 31 December 2015, as a consequence of the reimbursement of a  $\in$  195.4 million bond in February 2016. The amount related to non-current bank debt and bonds is prevalently made up of bonds issued on the European market and listed on the Luxembourg Stock Exchange (78% of the total) with repayment at maturity.

As a whole, borrowings show an average term to maturity of over 8 years, with 73% maturing after more than 5 years.

Net financial debt drops to €2.6 billion

Net financial debt went down from € 2,651.7 at 31 December 2015 to € 2,567.0 at 30 September 2016. This positive result, which is due to the cash flow generated by operational management, allowed dividends to be entirely financed and net borrowings to be reduced by over € 84 million.

An important contribution came from



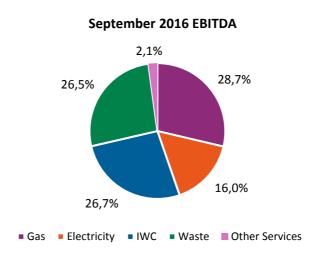
Net financial debt (€bln)

the good performance of trade receivables and the ensuing optimisation of net working capital

### 1.02 ANALYSIS BY BUSINESS AREA

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, recovery and disposal; the other services area, which covers services in public lighting and telecommunications, as well as other minor services. As of September 2016, the Hera Group has revised the layout of its own multi-business portfolio in order to improve and simplify the process of financial reporting concerning its own industrial structures: the business of industrial cogeneration has been transferred from the electricity area to the gas business area, uniting it with heat management, which also respects the Group's organisational vision. Pertinent data from 2015 has been restated in line with this change.

The contributions to EBITDA coming from the Group's different areas show a balanced mix, coherent with the Group's multibusiness strategy



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

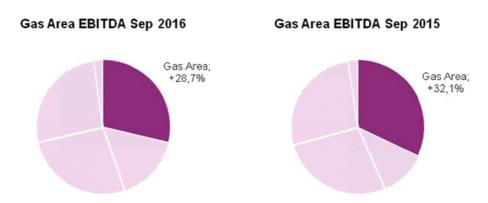
The following analyses of each single business area take into account all increased revenues and costs, with no impact on EBITDA, related to the application of IFRIC 12, as shown in the Group's consolidated income statement. The business areas affected by IFRIC 12 are: natural gas distribution services, electricity distribution services, all integrated water cycle services and public lighting services.

### 1.02.01 GAS

### **Gas: EBITDA falls**

The gas area saw a decrease as at 30 September compared to the same date in the previous year. These results must be considered within a regulatory context that defined 2016 as the first year in which resolution 583/2015/R/com of 2 December 2015 took effect. This resolution modified the methods used in calculating the rate of return for invested capital for infrastructure services in the gas sector, with the aim of introducing greater stability into the regulatory framework. This resolution's negative impact on revenues and EBITDA amounted to € 8.5 million over the first nine months of the year. Note that a pro forma version of the 2015 data is provided as part of the reclassification of the business of industrial cogeneration from the electricity area to the gas area, as further specified in paragraph 1.02. The effect of this reclassification amounts to € 2 million in EBITDA, made up of € 10 million in revenues, € 7.5 million in operating costs and € 0.5 million in personnel costs; regarding investments, the reclassification comes to € 1.5 million.

# Contribution to overall EBITDA decreases



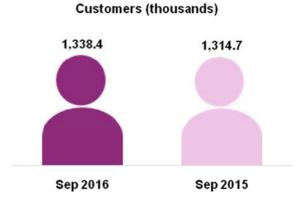
The following table shows the changes occurred in terms of EBITDA:

# Gas area EBITDA falls by 9.3%

(€/mln)	Sep 2016	Sep 2015	Abs. change	% change
Area EBITDA	186.5	205.6	-19.1	-9.3%
Group EBITDA	650.6	640.2	+10.4	+1.6%
Percentage weight	28.7%	32.1%	-3.4 p.p.	

# 1.3 million gas customers

Total gas customers rose by 1.8% over 30 September 2015, owing to both the commercial and customer loyalty initiatives set in place to contrast competition, and a wider customer base, in central Italy in particular with the acquisition of Julia Servizi Più, which occurred in June 2016 and contributed with roughly 13 thousand customers to the overall number.



Increase in volumes sold: +10.5%

Volumes of gas sold rose by 240.1 million m<sup>3</sup> or 10.5%, going from 2,286.3 million m<sup>3</sup> in the first

nine months of 2015 to 2,526.4 million m³ in the first six months of 2016. This change is exclusively due to a 239.4 million m³ increase in volumes of trading (representing +9.5% of total volumes). Volumes sold to final customers were essentially in line with 2015, thanks to the contribution of Julia Servizi Più, (with roughly 9.2 million m³), in spite of the drop in volumes owing to the milder winter seen in 2016.



The following table summarises the income statement for the gas area:

Gas: overall EBITDA drops

Income statement (€mln)	Sep 2016	% Inc.	Sep 2015	% Inc.	Abs. change	% change
Revenues	1,032.2		1,127.3		-95.1	-8.4%
Operating costs	(760.4)	-73.7%	(834.2)	-74.0%	-73.8	-8.8%
Personnel costs	(92.2)	-8.9%	(93.5)	-8.3%	-1.3	-1.4%
Capitalised costs	6.9	0.7%	6.1	0.5%	+0.8	+13.2%
EBITDA	186.5	18.1%	205.6	18.2%	-19.1	-9.3%

Gas revenues at €1,032.2 million

Revenues went from € 1,127.3 million in the first nine months of 2015 to € 1,032.2 million in the same period in 2016, falling by € 95.1 million or 8.4%. The main reasons for this include: a fall in

the price of raw materials that impacted sales by roughly € 81.7 million and trading by € 24.5 million; lower regulated revenues totalling roughly € 7.9 million largely owing to the reduction in the rate of return corresponding to € 8.5 million. These effects were partially compensated by the positive contribution coming from the rise in volumes of natural gas sold, amounting to roughly € 4.1 million, greater revenues for energy

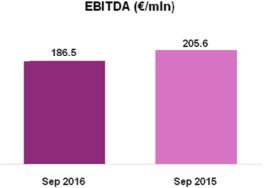


efficiency certificates ensuing from the price increase and amounting to roughly € 11.8 million, and greater revenues owing to the application of IFRIC 12 amounting to roughly € 2.6 million.

This fall in revenues was reflected proportionately by a decrease in operating costs, which went from € 834.2 million in the first nine months of 2015 to € 760.4 million in 2016, thus recording an overall drop of € 73.8 million compared to the first six months of 2015.

# Gas EBITDA: € 186.5 million

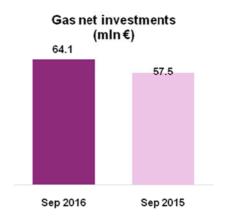
EBITDA was down by € 19.1 million or 9.3%, passing from € 205.6 million in the first nine months of 2015 to € 186.5 million in the same period in 2016, due to lesser earnings in trading and lesser revenues from regulated services, in which the reduced rate of return had an € 8.5 million impact.



Net investments in the Gas Area: €64.1 million

At 30 September 2016, investments in the gas area amounted to € 64.1 million, up € 6.6 million over the same period in the previous year. In

gas distribution, a € 4.3 million increase was recorded, mainly caused by activities in regulatory upgrading pursuant to resolution 554/15 (priorly resolution 631/13) consisting in a large-scale metre substitution which also involved lower-class devices (G4-G6), in addition to higher non-routine maintenance on networks and plants, and cathodic protection in gas networks in the Padua and Trieste areas. In the first three quarters of 2016 a slight drop was seen in requests for new connections compared



to the previous year, an activity which continues to feel the effects of the overall economic situation.

Investments increased by € 2.2 million in remote heating and heat management as well, of which € 2.8 million in remote heating mainly involving the revamping of Bologna's Barca cogeneration plant. New connections in remote heating were in line with the figures seen in the previous year.

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

### Investments rise

Gas (€mln)	Sep 2016	Sep 2015	Abs. change	% change
Networks and plants	48.9	44.6	+4.3	+9.6%
RH/Heat management	15.2	13.0	+2.2	+16.9%
Total Gas Gross	64.1	57.6	+6.5	+11.3%
Capital contributions	0.0	0.1	-0.1	-100.0%
Total Gas Net	64.1	57.5	+6.6	+11.5%

### 1.02.02 ELECTRICITY

Electricity: increase in EBITDA

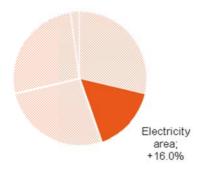
In the first nine months of 2016, the Electricity Area grew in both absolute terms and as a percentage of Group EBITDA. These results are to be considered within a regulatory context that defined 2016 as the first year in which resolution 583/2015/R/com of 02/12/2015 was implemented, which modified the method used in calculating the rate of return on invested capital for infrastructure services in the electricity sector. The negative impact of this resolution on revenues and EBITDA, owing solely to the rate of return, came to €2.2 million for the first nine months of the year. Revenues as at 30 September 2016 furthermore include the effect of a tariffary adjustment return and amortisation of investments, in light of resolution 654/15/R/eel. Note that a pro forma version of the 2015 data is provided as part of the reclassification of the business of industrial cogeneration from the electricity area to the gas area, as further specified in paragraph 1.02. The effect of this reclassification amounts to €2 million in EBITDA, made up of €10 million in revenues, €7.5 million in operating costs and €0.5 million in personnel costs; regarding investments, the reclassification comes to €1.5 million.

### Electricity EBITDA Sep 2016

# Electricity area; +11.4%

**Electricity EBITDA Sep 2015** 

Contribution to overall EBITDA: +4.6%



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

Electricity area EBITDA grows by 43.4%

(€/mln)	Sep 2016	Sep 2015	Abs. change	% change
Area EBITDA	104.3	72.7	+31.6	+43.4%
Group EBITDA	650.6	640.2	+10.4	+1.6%
Percentage weight	16.0%	11.4%	+4.6 p.p.	

Electricity customers reach 863.8 thousand

The number of electricity customers recorded a 2.3% (19.4 thousand) increase, mainly due to growth in the free market, which came to 9.3% confirming the growth trend seen in recent years, mainly due to a reinforcement of commercial activities.



Volumes sold drop slightly, by 0.2%

Volumes of electricity sold went from 7,245.6 GWh in the first nine months of 2015 to 7,233.7 GWh in the same period of 2016, with a slight drop of 0.2%. This trend in volumes is mainly due to a reduction in reselling activities, compensated greater acquisitions on the free market, mainly in order to reinforce commercial activities and increase volumes sold to last resort customers.



The following table summarises the income statement for the area:

Electricity: EBITDA increases by 43.4%

Income statement (€mIn)	Sep 2016	% Inc.	Sep 2015	% Inc.	Abs.change	% change
Revenues	1,075.5		1,147.8		-72.3	-6.3%
Operating costs	(939.0)	-87.3%	(1,046.8)	-91.2%	-107.8	-10.3%
Personnel costs	(37.5)	-3.5%	(33.9)	-3.0%	+3.6	+10.6%
Capitalised costs	5.3	0.5%	5.5	0.5%	-0.2	-3.6%
EBITDA	104.3	9.7%	72.7	6.3%	+31.6	+43.4%

€1,075.5 million in electricity revenues

Revenues decreased by 6.3%, passing from € 1,147.8 million in the first nine months of 2015 to € 1,075.5 million in the same period in 2016, and thus showing an overall reduction of € 72.3

million. The main reasons for this decrease are: a fall in the price of energy (Pun, Nationwide Price) coming to 27.6% on average compared to the previous year, which caused €40 million in lesser sales revenues, €64 million in lesser trading revenues and €2.2 million in lesser regulated revenues for distribution services, an effect of the reduction of the rate of return. These effects were partially

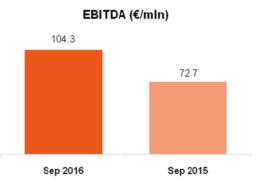


contained by both higher revenues for energy efficiency certificates, mainly ensuing from the price increase, for roughly € 2.1 million, and by greater revenues for energy production in thermoelectric plants, coming to roughly € 4 million.

Operating costs fell by € 107.8 million or 10.3%; this figure is proportionally higher than the decrease in revenues for the lower cost of raw materials.

Electricity
EBITDA at €104.3
million

At the end of the first nine months of 2016, EBITDA rose by €31.6 million or 43.4%, going from €72.7 million at 30 September 2015 to €104.3 million in 2016, thanks to higher margins on sales activities and higher margins in electricity production, due to the positive performance of dispatching services. These effects were partially reduced by €2.2 million in lesser

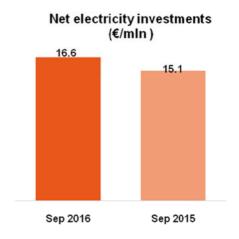


revenues in the regulated distribution service, owing to the fall in the rate of return.

Net investments in the Electricity Area: €16.6 million Investments made in the Electricity Area came to € 16.6 million at September 2016, rising by

€ 1.5 million compared to the € 15.1 million seen in the previous year. The interventions carried out mainly concern non-routine maintenance of plants and grids in the areas surrounding Modena, Imola, Trieste and Gorizia. Compared to the same period in the previous year, a higher amount of non-routine maintenance was seen, mainly concerning interventions on the Cogen plant in Imola.

Requests for new connections grew slightly compared of the same period in the previous year.



The details of operating investments in the electricity area are as follows:

Eletricity (€mln)	Sep 2016	Sep 2015	Abs. change	% change
Networks and plants	16.7	15.1	+1.6	+10.6%
Total Electricty Gross	16.7	15.1	+1.6	+10.6%
Capital contributions	0.0	0.0	+0.0	+0.0%
Total Electricity Net	16.6	15.1	+1.5	+9.9%

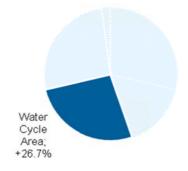
### 1.02.03 INTEGRATED WATER CYCLE

Integrated Water Cycle: slight drop

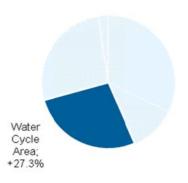
Over the first nine months of 2016, the integrated water cycle area recorded a slight drop compared to the same period in 2015, both as a contribution to Group EBITDA and as the absolute value of this single business area. 2016 is the first year in which the tariff method defined by the AEEGSI for 2016-2019 (resolution 664/2015) takes effect, largely involving in a reduction in the rate of return. The resolution's negative impact on revenues and EBITDA, resulting from the rate of return and the restriction on revenues, amounts to € 14.9 million for the first nine months of 2016.







Contribution to EBITDA: down 0.6%



Water Cycle Area EBITDA falls by 0.6%

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

(€/mln)	Sep 2016	Sep 2015	Abs.change	% change
Area EBITDA	173.7	174.7	(1.0)	(0.6%)
Group EBITDA	650.6	640.2	+10.4	+1.6%
Percentage weight	26.7%	27.3%	-0.6 p.p.	

# 1.5 million Water Cycle customers

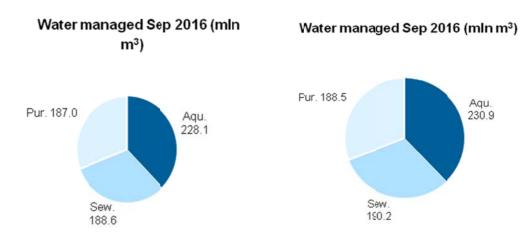
The number of water customers settled at 1.5 million, increasing by 4.2 thousand (+0.3%) compared to the first nine months of 2015 and confirming the trend of organic growth seen across the areas served by the Group. The Emilia Romagna area managed by Hera Spa is responsible for the majority of



this growth, thanks to a slight recovery in the number of new connections.

The main quantitative indicators of the area are as follows:

228.1 million m<sup>3</sup> managed in the aqueduct



Volumes dispensed through the aqueduct, along with volumes of sewerage and purification, showed a slight decline compared to the first nine months of 2015; this trend is tied to climatic factors in early summer 2016, i.e. particularly heavy precipitation with respect to seasonal averages, and a minor decrease in both industrial and domestic consumption. Volumes distributed, following AEEGSI resolution 664/2015, are an indicator of activities in the geographical areas served by the Group 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: slight fall in EBITDA

Income statement (€mln)	Sep 2016	% Inc.	Sep 2015	% Inc.	Abs. change	% change
Revenues	594.4	-	599.1	-	(4.7)	(0.8%)
Operating costs	(306.0)	-51.5%	(312.2)	-52.1%	(6.2)	(2.0%)
Personnel costs	(117.2)	-19.7%	(114.7)	-19.2%	+2.5	+2.2%
Capitalised costs	2.6	0.4%	2.5	0.4%	+0.1	+4.0%
EBITDA	173.7	29.2%	174.7	29.2%	(1.0)	(0.6%)

# Water Cycle revenues at € 594.4 million

Revenues for the first nine months of 2016 showed a slight decrease, down 0.8% with respect to the same period in 2015, going from € 599.1 million in 2015 to € 594.4 million in 2016. The main reasons for this include € 10.9 million in lower revenues for distribution, owing to the reduction in the rate of return, and € 14.9 million, due to the reformulation of

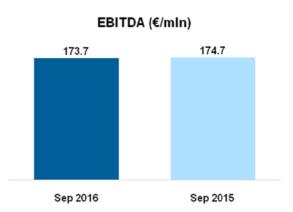


the restriction on revenues, only partially compensated by higher revenues covering costs acknowledged by the Authority. This drop was partially compensated by  $\[ \]$  1.6 million in higher revenues for subcontracted works, as well as higher revenues coming from connections and from the application of accounting principle IFRIC 12, which contributed with  $\[ \]$  1.8 million.

Operating costs fell by € 6.2 million or 2.0%, largely on account of the lower cost of electricity for plants, lower operating costs and lesser expenses employed for structures.

# EBITDA at €173.7 million

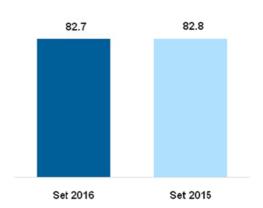
EBITDA saw a slight decrease of € 1.0 million, or 0.6%, passing from € 174.7 million in the first nine months of 2015 to € 173.7 million in 2016. This is due to € 10.9 million in lesser revenues for dispensing caused by the decrease in the rate of return and the newly defined restriction on revenues, largely



compensated by lower operating and structural costs, subcontracting activities and higher revenues from new connections.

Net investments in the Integrated Water Cycle Area: €82.7 million Investments in the Integrated Water Cycle Area amounted to € 82.7 million, in line with the previous year. Including capital grants, investments in this area came to € 93.1 million. The interventions mainly concerned extensions, reclamations and network and plant upgrading, in addition to regulatory upgrades which largely involved purification and sewerage.

### Net water cycle investments (€/mln)



Investments totalled € 44.9 million in the aqueduct, € 27.3 million in sewerage and € 20.9 million in purification.

Among the more significant works, note: in the aqueduct, an upgrading of water networks in the historical centre of Bologna which accompanied the creation of the transportation route "Crealis", and an upgrading of interconnections in the Modena water system; 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 creation of the head tank of the Riccione purification plant, upgrading on the Cattolica purifier, revamping of the oxygen production facility in the Idar purification plant in Bologna and, in the areas served by AcegasApsAmga, continued works in upgrading the large purification plants in Servola, Cà Nordio and Abano Terme.

Requests for new water and sewerage connections rose by € 1.3 million over the previous year, remaining rather low nonetheless, compared to the pre-crisis conditions in the construction sector.

Capital grants amounting to € 10.4 million included € 4.2 million pertaining to the tariff component of the New Investments Fund (FoNI), and increased overall compared to the previous year by € 1.6 million, in spite of a reduced amount coming from the FoNI.

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

Water Cycle Area (€mln)	Sep 2016	Sep 2015	Abs.change	% change
Aqueduct	44.9	43.3	+1.6	+3.7%
Purification	20.9	22.6	-1.7	-7.5%
Sewage	27.3	25.7	+1.6	+6.2%
Total Water Cycle Gross	93.1	91.6	+1.5	+1.6%
Capital contributions	10.4	8.8	+1.6	+18.2%
of which FoNI (New Investment Fund)	4.2	7.3	-3.1	-42.5%
Total Water Cycle Net	82.7	82.8	-0.1	-0.1%

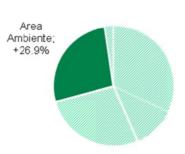
### 1.02.04 WASTE MANAGEMENT

In the first nine months of 2016, the waste management area's contribution to Group EBITDA came to 26.5%, with a sector EBITDA that remained fundamentally in line with the same period in 2015.

Waste Management EBITDA Sep 2016



Waste Management EBITDA Sep 2015



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

Waste Management Area: EBITDA stable

(€/mln)	Sep 2016	Sep 2015	Abs. change	%change
Area EBITDA	172.2	172.5	-0.3	-0.2%
Group EBITDA	650.6	640.2	+10.4	+1.6%
Percentage weight	26.5%	26.9%	-0.4 p.p.	

Volumes marketed and treated by the Group in the first nine months of 2016 are as follows:

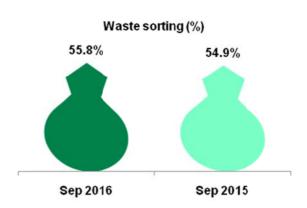
Quantitative data (thousand of tonnes)	Sep 2016	Sep 2015	Abs. change	% change
Urban waste	1,533.4	1,533.0	+0.4	+0.0%
Market waste	1,747.6	1,476.2	+271.4	+18.4%
Waste marketed	3,281.0	3,009.2	+271.8	+9.0%
Plant by-products	1,869.8	1,717.2	+152.6	+8.9%
Waste treated by type	5,150.9	4,726.4	+424.5	+9.0%

Market waste: +18.4%

An analysis of the volumes treated shows a 9.0% increase in waste marketed, mainly due to a rise in commercial waste coming to 18.4%. This growth is accounted for above all by the late-2015 acquisitions of Waste Recycling and the Geonova plants, which gave a significant impetus to management of industrial waste. Urban waste remained in line with 2015 thanks to an increase in sorted waste which compensated for the drop in strand waste, which came to 12.3 thousand tonnes. The increase in by-products is mainly due to the company mergers mentioned above.

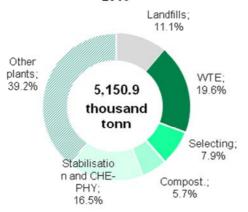
+0.9% in sorted waste

Sorted urban waste recorded further progress, rising from 54.9% to 55.8% primarily thanks to new expansion projects. These high percentages of overall recovery lead to environmental benefits. In the first nine months of 2016, sorted waste grew by 0.5% in areas served by Hera Spa, by 2% in areas served Marche Multiservizi confirmed in 2016 as well the trend of strong growth seen in areas of the Triveneto region, up 2.6%.

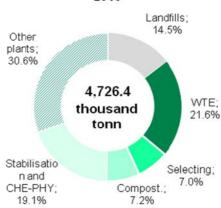


# Sharp drop in the use of landfills

Waste processed by type of plant Sep 2016



# Waste processed by type of plant Sep 2015



Quantitative data (thousand of tonnes)	Sep 2016	Sep 2015	Abs.change	%change
Landfills	573.4	685.3	-111.9	-16.3%
Waste-to-energy plants	1,009.8	1,021.6	-11.8	-1.2%
Selecting plant and other	406.1	329.5	+76.6	+23.2%
Composting and stabilisation plants	291.7	340.8	-49.1	-14.4%
Stabilisation and chemical-physical plants	849.5	903.5	-54.0	-6.0%
Other plants	2,020.4	1,445.7	+574.7	+39.8%
Waste treated by plant	5,150.9	4,726.4	+424.5	+9.0%

The Hera Group operates in the entire waste cycle, with 83 urban and special waste treatment and disposal plants, the most important of which are: 10 waste to energy plants, 11 composters /digesters and 9 selecting plants. Note that towards the end of the 2015 financial year the companies Biogas2015 and Waste Recycling were purchased, along with the branch of Geo Nova containing a few plants.

Waste treatment increased by 9.0% over the first nine months of 2015. This growth is mainly explained by the higher volumes managed by "Other plants", due to the acquisition of Waste Recycling, and an increase in intermediation, that compensated for the lesser landfill usage, as had already been seen throughout 2015.

The table below summarises the income statement for the waste management area:

# Waste management: EBITDA stable

Income statement (€min)	Sep 2016	% Inc.	Sep 2015	% Inc.	Abs.change	% change
Revenues	727.6		679.3		+48.3	+7.1%
Operating costs	(430.6)	-59.2%	(385.2)	-56.7%	+45.4	+11.8%
Personnel costs	(128.9)	-17.7%	(124.5)	-18.3%	+4.4	+3.5%
Capitalised costs	4.1	0.6%	3.0	0.4%	+1.1	+37.1%
EBITDA	172.2	23.7%	172.5	25.4%	-0.3	-0.2%

Waste
Management
revenues at
€727.6 million

Revenues rose in the first nine months of 2016 by 7.1% or € 48.3 million, going from € 679.3 million in the first nine months of 2015 to € 727.6 million in the same period in 2016. This growth is due to the greater volumes treated, a different method used in stating energy incentives, that in 2015 were recorded as lesser costs, and higher revenues in urban hygiene covering the greater amount of services requested. These positive

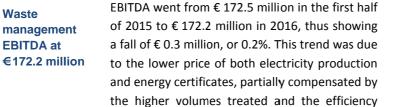


effects were partially compensated by lesser revenues for electricity production following the decrease in the CIP6/CEC unit price and a decrease in green certificate recognition for some plants.

Operating costs for this area during the first nine months of 2016 increased by € 45.4 million, in

line with the rise in waste treated and the effect of the new method of calculating green certificated, as described above.

EBITDA (€/mln)





enhancing actions set in place in disposal and recovery as well as in collection and street sweeping.

Net investments in the Waste Management Area at €32.2 Net investments in the Waste Management Area involving plant maintenance and upgrading amounted to € 32.2 million, up € 10.8 million over 2015.

The figures seen in the composting/digester subsector decreased slightly compared to the previous year, as an effect of lesser works on the Rimini plant, which had undergone significant interventions in 2015, only partially compensated by greater investments in the Ozzano (refining line completed) and Sant'Agata (activities tied to the biomethane project) composters.



The appreciable increase in investments for landfills, coming to € 10.0 million, can primarily be traced to the creation of the 9<sup>th</sup> sector of the Ravenna landfill and the beginning of works on the new Sommacampagna landfill. Also note the interventions on the Tre Monti landfill, including the installation of a new motor and a biogas intake network, as well as works on landslide repair and road access.

In the WTE subsector, the € 1.1 decrease compared to the previous year was mainly due to the more extensive works on plants in Padua and Trieste implemented in 2015, not entirely compensated by 2016 investments in the Modena, Ferrara and Pozzilli plants.

Investments in the Special Waste Plants subsector showed a slight decrease in maintenance activities on the Ravenna plants owing to interventions completed in 2015 (sludge dehydration and improvements to cooling towers).

In reuse and recycling centres and gathering equipment, an increase of  $\[ \in \]$  0.9 million was seen, mainly due to investments for sorted waste collection in the areas surrounding Padova, Triestre and Abano Terme, in addition to interventions for the Collection Centre in Pesaro. In selection and transhipment plants, the  $\[ \in \]$  1.1 million increase recorded is largely attributable to the consolidation of the company Waste Recycling and involves the completion of works on the chemical-physical treatment plant and covering the basin of the biological treatment plant.

Operating investments rise

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

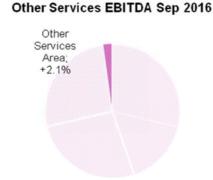
Waste Management (€min)	Sep 2016	Sep 2015	Abs. change	% change
Composting/Digestors	1.9	2.3	-0.4	-17.4%
Landfills	14.0	4.0	+10.0	+250.0%
WTE	5.4	6.5	-1.1	-16.9%
RS Plants	1.7	1.8	-0.1	-5.6%
Ecological areas and gathering equipment	6.0	5.1	+0.9	+17.6%
Transshipment, selection and other plants	3.2	2.1	+1.1	+52.4%
Total Waste Management Gross	32.2	21.8	+10.4	+47.7%
Capital contributions	0.0	0.4	-0.4	-100.0%
Total Waste Management Net	32.2	21.4	+10.8	+50.5%

### 1.02.05 OTHER SERVICES

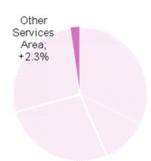
The other services area brings together all minor services managed by the Group, including public lighting, telecommunications and cemetery services.

Other Services: decrease in EBITDA During the first nine months of 2016, the results of the other services area saw a 6.2% decrease compared to the previous year, with EBITDA going from  $\leq$  14.8 million in the first nine months of 2015 to  $\leq$  13.9 million in the same period in 2016.

Slight drop in contribution to overall EBITDA







The changes occurred in EBITDA are as follows

Other Services Area EBITDA falls by €0.9 million

(€/mln)	Sep 2016	Sep 2015	Abs. change	% change
Area EBITDA	13.9	14.8	-0.9	-6.2%
Group EBITDA	650.6	640.2	+10.4	+1.6%
Percentage weight	2.1%	2.3%	-0.2 p.p.	

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

Quantative data	Sep 2016	Sep 2015	Abs. change	% change
Public lighting				
Lighting points (thousands)	517.6	522.6	(5.0)	(1.0%)
Municipalities served	151.0	157.0	(6.0)	(3.8%)

517.6 thousand lighting points An analysis of the data regarding public lighting shows an overall decrease of 5.0 thousand lighting points and a loss of 6 municipalities served. The Hera Group acquired roughly 20 thousand lighting points in 11 new municipalities, above all in Lazio, Lombardy and the Triveneto region, to which greater requests for services in municipalities already served in the area managed by Hera Luce; this allowed the loss of approximately 25 thousand lighting points and 17 municipalities served to be contained.

A summary of the income statement for the other services area is provided below:

Other Services: revenues increase

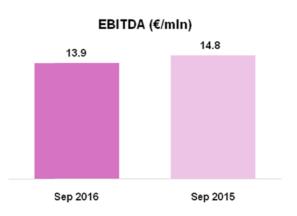
Income statement (€mln)	Sep 2016	% Inc.	Sep 2015	% Inc.	Abs. change	% change
Revenues	90.9		89.9		+1.0	+1.1%
Operating costs	(63.9)	-70.3%	(62.0)	-69.0%	+1.9	+3.1%
Personnel costs	(14.2)	-15.6%	(13.9)	-15.4%	+0.3	+2.2%
Capitalised costs	1.1	1.2%	0.8	0.9%	+0.3	+37.0%
EBITDA	13.9	15.2%	14.8	16.4%	-0.9	-6.2%

Revenues for Other Services at €90.9 million Revenues in this area grew compared to the previous year, in spite of the transfer in late 2015 of the company Trieste Onoranze e Trasporti Funebri, held by AcegasApsAmga. Not including this change, revenues in the Other Services area would have increased by € 2.2 million thanks to the contribution coming from public lighting mainly in the Emilia Romagna area and greater revenues in telecommunications.



# EBITDA falls by €0.9 million

EBITDA shows a €0.9 million decrease compared to September 2015. Half of this change is accounted for by a lower amount of EBITDA for public lighting, where the lesser contribution coming from areas in North-Eastern Italy mainly due to lesser requests by the municipalities served was only partially compensated by the good performance of Hera Luce. The remainder is due to EBITDA in cemetery services and in the telecommunications business.

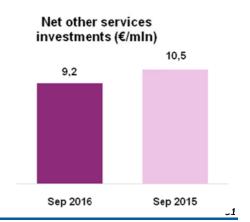


# Net investments: €9.2 million

Investments in the Other Services Area amounted to € 9.2 million, falling by € 1.3 million compared to the same period in the previous year.

In telecommunications, € 6.8 million of investments were made in networks and TLC and IDC (Internet Data Center) services, in line with 2015.

in public lighting services, investments totalling € 2.4 million concerned lamppost maintenance, enhancement and modernisation interventions,



with a € 1.3 overall reduction that concerned both the company Hera Luce and the company Insigna within AcegasApsAmga's consolidated scope.

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

Other Services (€mln)	Sep 2016	Sep 2015	Abs.change	% change
TLC	6.8	6.8	+0.0	+0.0%
Public Lighting and Street Lights	2.4	3.7	-1.3	-35.1%
Total Other Services Gross	9.2	10.5	-1.3	-12.4%
Capital contributions	0.0	0.0	+0.0	+0.0%
Total Other Services Net	9.2	10.5	-1.3	-12.4%

### 1.03 SHARE PERFORMANCE AND INVESTOR RELATIONS

A macro-scenario marked by greater perceived risk, due to the referendum that after Brexit has raise concerns among investors. Over the first nine months of 2016, the economic scenario has progressively deteriorated owing to a series of geopolitical events that led to an increased volatility in financial markets. The apprehension associated with the global economic slowdown and higher US interest rates set by the Federal Reserve, during the first quarter of 2016,impacted on the performance of the stocks further aggravated at the end of June by the unexpected results of the referendum on the United Kingdom's exit from the European Union. The stock exchanges in the Eurozone, in fact, responded to the referendum results with a loss in capitalization amounting to over 410 billion Euros, with Piazza Affari recording the worst performance in the history of Italian stock exchanges. During the summer, the markets recorded a cautious increase in investments, resulting in a partial recovery in stock value, interrupted in early September by rumours about an increase in US interest rates. The impending constitutional referendum in Italy, scheduled to take place in the first half of December, further impacted on the stock market: as a matter of fact, a higher political risk perceived by investors reflected in domestic stock prices, resulting in an overall negative downturn of their value.

### 2.378 €

the price of Hera stock at the end as at 30/09/2016. Hera outperforms the market and its own sector

Within this context, Hera stock amply outperformed both the FTSE All Share and the exchange index of the sector in question, showing more resilience and less volatility. As at 30 September2016 its listings closed, after dividend paid out at 9 cent each, at an official price of € 2.378 per share. The stock's evolution showed a beta coefficient significantly lower than the market, settling around 0.4. This shows how the Group's economic-financial stability and the growth prospects seen in its business plan, investors perceive the riskiness of Hera stock to be significantly lower than other stock market shares, a perception also highlighted by the limited cost of debt set at the beginning of October, in connection with the issuing of a bond on international markets.



Dividends per with expectations

In line with the indications set out in its latest business plan, on 20 June Hera paid a dividend of 9 share paid out in line cents per share, the fourteenth in a series of uninterrupted growth since being listed.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
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

**Total** shareholders' return over IPO: +173.7%

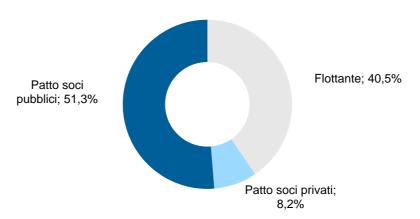
2.84 € the average target price set by analysts

Thanks to the combination of continuously remunerating shareholders with dividends and raising the price of the stock, the total shareholders' return accumulated since listing has constantly remained positive, even in the most difficult moments of the financial crisis, reaching, at the end of the period in question, +173.7%.

The Hera Group's market capitalisation shows a value amounting to € 3.5billion (ranking no. 30 in the Italian stock exchange), confirming its superiority to some stocks that are part of the FTSE Mib, the main Italian stock exchange index.

No change occurred in the number of financial analysts covering the company: Banca Akros, Banca IMI, Equita, Fidentiis, Goldman Sachs, ICBPI, Intermonte, Kepler Cheuvreux, MainFirst and Mediobanca. At the end of the first half of 2016, Hera is able to reconfirm a clear majority of positive reports, with almost all recommendations defined as "Buy/Outperform" and the consensus target price set at € 2.84.

#### Breakdown of Group shareholders at 30/09/2016



# 51.3%

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

The placement of 1.1% of public shareholders' share capital attracted a demand 4 times greater than the offer

At 30 June, the corporate structure shows its usual balance, with 51.3% of shares belonging to 118 public shareholders located across the geographical areas served and regulated by a threeyear Stockholders' Agreement signed on 26 June 2015.

In keeping with the Agreement, on 8 July 12 Municipality shareholders sold, in a coordinated and transparent way, through an Accelerated Book Building operation, roughly 16 million shares, corresponding to 1.1% of total share capital, to over thirty Italian and foreign institutional investors. Thanks to a demand that reached over four times the amount put on sale, the placing occurred at a price of € 2.35 per share, with the lowest discount seen on the market since the beginning of the year for similar operations, set at 4.3% 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 28 April 2016 for 18 further months, for a maximum amount of € 180 million. This plan is

aimed at financing M&A opportunities involving smaller companies, and smoothing out any anomalous market price fluctuations vis-à-vis those of similar large Italian companies. At the end of the period under review, Hera held 16.1 million treasury shares.

Dialogue with the market: a major intangible asset

In the first half of the year, 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 second and third quarter.

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 stakeholders.

# 1.04 REFERENCE SCENARIO AND GROUP STRATEGY

Reference scenario and competitive context Italy's primary public utility service sector is at present highly fragmented, consisting of a large number of local public enterprises. Today, with the expiry of grants for gas distribution, waste collection and street sweeping services, and the introduction of new grants defined on an expanded province-wide geographical basis, a period of competitive tenders is approaching that will go to the advantage, as part of sector consolidation, of well-structured enterprises, and will thus entail a reduction in the number of operators involved in gas distribution, waste gathering and street sweeping.

The Hera Group's model on the market

For this reason, the Hera Group, due to its ability to make the most of scale economies and develop the high level of proficiency found in local enterprises, will be able to propose a model for development that is well-suited to these upcoming changes. The "Hera model" was in fact conceived with a widely diversified ownership framework, regulated by a simple governance, which proved able to provide the basis for an industrial and managerial approach aimed at transforming a multitude of local enterprises into a single, integrated system, guaranteeing a higher degree of efficiency and service quality. These results were pursued with a view to economic, social and environmental sustainability, and achieved by sharing the economies and synergies derived from a close relation with the localities in question.

A reproducible model underlying competitiveness

This business model has led to continuous internal and external growth, constantly attracting other municipalised multi-utility enterprises from bordering geographical areas. Over 13 years, following the original model, 22 enterprises from 4 regions in Central North-Eastern Italy have in fact been integrated, allowing the Group to reach outstanding national market positions, quadrupling its EBITDA and, more generally, improving all KPI in socio-environmental sustainability. Currently, the model adopted by the Group can be seen as a point of reference for the transformation of the sector, an issue which is currently on the Government's agenda and under examination by the regulated services Authority.

A balanced development of the activity portfolio

The Group's growth strategy, pursued with continuity over the years, has maintained a perfect balance between regulated and free market activities in its core businesses. Growth in regulated activities has been achieved both through organic development and by improving the efficiency of, while integrating, the municipalised enterprises acquired, while an expanded customer base and plant system has led to gaining new market shares and acquiring "mono-business" companies operating in sectors presenting the most interest. This balanced portfolio mix has ensured an effective expansion of the Group as well as a high degree of risk diversification.

A risk adverse strategy

Exposure to market risks and competition has been contained through a carefully considered management of the Group's risk profile and return on activities. This is what underlies the choice to expand activities in waste treatment, which are inadequate across the entire country and necessary for the sustainability of the services offered, and to focus on commercial development. A further decision in line with this risk-adverse strategy concerns gas procurement with short-term contracts, instead of turning to long-term supply contracts, which provide more guarantees but are also more exposed to the risks involved in demand and price fluctuation. In Italy, the sector's evolution towards a less fragmentary structure is now supported by a legislative

framework that encourages operators to consolidate. This will come about thanks to tenders issued for some services whose grants have already expired, with the introduction of new laws and a reformulation of currently existing ones (i.e. decrees implementing the "Madia" law) concerning local public services and public administration, aimed at providing incentives for rationalising or transferring shares held in primary public utility services of general economic interest.

# Future prospects in the sector

This new legislation represents a break with the past, introducing a series of measures whose goal is to encourage smaller municipalised enterprises to consolidate, an objective shared by the recent revision of the tariff systems established by the AEEGSI, providing incentives for enterprises that strive towards a higher level of efficiency. This complex context defines the reference scenario for the new business plan to 2019, presented on 11 January 2016, that calls for continued growth in EBITDA, reaching over € 1 billion by the end of the period in question. This growth will be sustained by the Group's time-tested development model, which is propelled by two complementary "motors": organic and external growth. The first motor, i.e. organic growth, will pursue a form of management geared towards searching for efficiencies, developing the plant base and the customer portfolio, and extracting synergies from companies acquired in recent years. These levers will be able to more than compensate for both the impact of tariff revisions in regulated services as nationally defined by the AEEGSI, and the reduction in incentives for energy management from renewable sources. The second motor of growth, involving external lines, will make the most of tenders awarded for gas distribution in localities served (based on the level of efficiency already reached and a majority presence in most of the areas subject to tender), as well as the integration of four multi-utilities in regions in which the Group currently operates. The use of this second motor is expected to contribute, as has been the case in the past, to a rise in EBITDA.

# The new Business Plan to 2019

With its new business plan, the Group intends to support the development of this sector in Italy, counting on the knowhow it has accumulated in the past with M&As, and relying on its own model of governance, open to the entry of new municipalised multi-utilities and their public shareholders. Building on the previous business plan, four strategic levers will be activated as regards the company's organisation and each of its businesses: growth, efficiency, innovation and excellence. This orientation, which has already proven its validity over the last two years, is at the root of all main strategic projects envisaged for the next four years.

# Growth

Growth will be fostered by investments expected to total over € 2.2 billion, accumulated over the duration of the plan. 78% of these investments will be directed towards regulated assets, maintaining solid asset ratios, thanks to the full coverage guaranteed by cash flow generation coming from operational activities. At the same time, the Group's already strong current presence in free markets will also be reinforced, in particular by developing the number of customers in energy sales activities and boosting activities in waste treatment, by way of an increasingly eco-compatible management. Objectives for growth in the environment sector are expected to remain in line with market trends seen in the recent past, with a contribution coming from the acquisitions finalised in late 2015 of Geo Nova and Waste Recycling, confirming the rationale of regional expansion and the preference given to plants that are complementary to those currently possessed by the Group. In the energy sector, Hera can rely on a customer base

with approximately 2.2 million contracts, and aims at a greater presence in the retail sector, clearly marked by a more stable and resilient consumption. The objective set for the duration of the plan is to increase electricity customers, prolonging the trend seen in recent years and continuing to benefit from flexible energy commodity procurement sources. The expansion of this market will be accompanied by continued improvement in service quality, development of new commercial offers and cross selling opportunities for current customers. In this business area, Hera will attempt to contain the effects of the increase in competition, making the most of its present critical mass and market position.

**Efficiency** 

**Innovation** 

**Excellence** 

The Group will continue to dedicate close attention to efficiency and synergy extraction, with a view to not only creating value for its shareholders, but also protecting its own competitiveness on the market. The Group's multi-utility model, which already guarantees a 'cost-to-serve' among the best in the sector, represents a competitive advantage in the search for efficiency, because it allows new organisation and process solutions to increase their benefits, with the possibility of specific applications in the various businesses and an improvement in customer satisfaction. Impetus towards growth will also come from innovation. As confirmation of the importance that Hera gives to this strategic imperative, an Innovation Management branch was created in 2014, specifically intended to act as a receptacle for ideas and new technologies and to propel their implementation across the Group. The business plan includes 51 innovative projects that will not only contribute to developing new lines of revenue, but will also be responsible for about 10% of the efficiencies planned for the period in question. Hera intends to confirm its customary strategic framework, standing out for its excellence, surpassing the quality and efficiency standards set out by the Authority for regulated services, consolidating its leadership in environmental services and maintaining a level of customer satisfaction among the highest in the sector, all within the context of sustainable growth and continuous development of intangible assets. These objectives are matched by a dividend foreseen at 9 cents per share through to 2019. This policy can be considered feasible thanks among other things to the expected cash flow that, in addition to guaranteeing full coverage of the investment plan, confirms the Group's solid financial structure.

#### 1.05 HUMAN RESOURCES

As of 30 September 2016, the Hera Group's permanent employees numbered 8,380 (consolidated companies), with the following distribution by role:

managers (154), middle managers (525), clerks (4,482), workers (3,219). This structure was determined by the following movements: new hires (128) and exits (180), along with the changes in the company's perimeter with the entrance of Julia Servizi, which provided for the entry of six units.

	30-Sep-16	31-Dec-15	Change
Managers	154	146	8
Middle managers	525	526	-1
Employees	4482	4449	33
Workers	3219	3305	-86
Total	8380	8426	-46

In detail, the effective movements were the following:

Work force as at 31 December 2015	8426
Additions	128
Exit	-180
Net flows	-52
Additions due to change in the scope of consolidation	6
Total	8.380

The movements for the period essentially result from:

- fixed-term contracts turned into open-ended contracts
- recruitment of professional profiles that were not present in the Group
- the reduction in the number of workers is offset by the entry of equivalent fixedterm profiles, who were gradually introduced into open-ended contract consolidation schemes.
- changes in the scope with the entrance of Julia Servizi

# CONSOLIDATED FINANCIAL STATEMENTS OF THE HERA GROUP



# 2.01 FINANCIAL STATEMENTS

# 2.01.01 Income Statement

(€min)	30-sep-2016 (9 months)	30-sep-2015 (9 months)	Third Quarter 2016 (3 months)	Third Quarter 2015 (3 months)
Revenues	3,104.8	3,246.4	952.1	1,033.4
Other operating revenues	259.9	226.0	97.9	70.1
Use of raw materials and consumables	(1,437.4)	(1,613.2)	(439.4)	(509.3)
Service costs	(872.0)	(815.4)	(301.7)	(284.7)
Personnel costs	(390.1)	(380.5)	(123.4)	(119.8)
Amortisation, depreciation, provisions	(321.3)	(323.0)	(108.6)	(109.0)
Other operating costs	(34.7)	(40.9)	(13.9)	(14.0)
Capitalised costs	20.0	17.8	8.8	5.5
Operating profit	329.2	317.2	71.8	72.2
Portion of profits (loss) pertaining to joint ventures and associated compar	8.0	6.1	1.5	(0.2)
Financial income	85.2	66.1	16.6	8.8
Financial expense	(183.4)	(171.0)	(50.3)	(46.1)
Total financial operations	(90.2)	(98.8)	(32.2)	(37.5)
Pre-tax profit	239.0	218.4	39.6	34.7
Taxes	(87.2)	(83.5)	(16.0)	(15.2)
Net profit for the period	151.8	134.9	23.6	19.5
Attributable to:				
Shareholders of the Parent Company	142.2	125.0	21.2	17.7
Non-controlling interests	9.6	9.9	2.4	1.8
Earnings per share				
basic	0.097	0.085		
diluted	0.097	0.085		

# 2.01.02 Statement of comprehensive income

(€mln)	30-sep-2016 (9 months)	30-sep-2015 (9 months)
Profit / (loss) for the period	151.8	134.9
Items reclassifiable to the income statement		
fair value of derivatives, change in the period	0.5	0.9
Tax effect related to the other reclassifiable items of the comprehensive income statement	(0.2)	(0.2)
Other comprehensive income items companies measured with the equity method	0.1	0.1
Items not reclassifiable to the income statement		
Actuarial income/(losses) post-employment benefits	(7.8)	7.5
Tax effect related to the other not reclassifiable items of the comprehensive income statement	0.5	(2.1)
Total comprehensive income/ (loss) for the period	144.9	141.1
Attributable to:		
Shareholders of the Parent Company	135.7	130.4
Non-controlling interests	9.2	10.7

# 2.01.03 Statement of financial position

(€mln)	30 Sep 2016	31 Dec 2015
ASSETS		
Non-current assets		
Property,plant and equipment	1,998.4	2,031.6
Intangible assets	2,937.1	2,895.6
Goodwill	378.0	378.0
Equity investments	153.6	157.1
Non-current financial assets	113.2	125.2
Deferred tax assets	79.0	73.0
Financial instruments - derivatives	158.8	108.2
Total non-current assets	5,818.1	5,768.7
Current assets		
Inventories	120.1	116.3
Trade receivables	1,383.5	1,533.0
Current financial assets	28.8	34.6
Current tax assets	74.8	29.1
Other current assets	267.2	226.1
Financial instruments - derivatives	17.1	6.5
Cash and cash equivalents	379.3	541.6
Total current assets	2,270.8	2,487.2
TOTAL ASSETS	8,088.9	8,255.9

cont.

(€mln)	30 Sep 2016 31 De	c 2015
SHAREHOLDERS' EQUITY AND LIABILITIES		
Share capital and reserves		
Share capital	1,473.0	1,474.2
Reserves	744.9	703.7
Profit (loss) for the period	142.2	180.5
Group equity	2,360.1	2,358.4
Non-controlling interests	140.4	144.7
Total equity	2,500.5	2,503.1
Non-current liabilities		
Non-current financial liabilities	2,937.1	2,943.8
Employee leaving indemnity and other benefits	152.5	148.3
Provisions for risks and charges	383.3	365.3
Deferrred tax liabilities	24.9	23.8
Financial instruments - derivatives	63.9	33.4
Total non-current liabilities	3,561.7	3,514.6
Current liabilities		
Current financial liabilities	246.1	484.3
Trade payables	1,051.9	1,121.3
Current tax liabilities	101.9	25.7
Other current liabilities	607.8	584.6
Financial instruments - derivatives	19.0	22.3
Total current liabilities	2,026.7	2,238.2
TOTAL LIABILITIES	5,588.4	5,752.8
TOTAL EQUITY AND LIABILITIES	8,088.9	8,255.9

# 2.01.04 Cash flow statement

( <del>ɗ</del> mln)	30 Sep 2016	30 Sep 2015
Pre-tax profit	239.0	218.4
Adjustment to reconciliate net profit with cash flow from operating activities:		
Amortisation and impairment of tangible assets	115.6	120.4
Amortisation and impairment of intangible assets	136.5	129.8
Allocation to provisions	69.2	? 72.7
Effect from valuation with the equity method	(8.0)	(6.1)
Financial (income) / expense	98.2	2 104.9
(Capital gain) / loss and other non monetary elements (valuations commodities derivatives included)	(18.5)	0.2
Change in provisions for risks and charges	(17.3)	(21.4)
Change in provisions for employee benefits	(6.2)	(8.0)
Total cash flow before change in working capital	608.5	610.9
(Increase) / Decrease inventory	(4.5)	(16.0)
(Increase) / Decrease trade receivables	99.3	3 17.4
Increase / (Decrease) trade payables	(74.5)	(147.4)
(Increase) / Decrease other current asset/liabilities	(11.9)	88.7
Change in working capital	8.4	(57.3)
Dividends collected	9.8	5.4
Interest income and other financial income collected	19.4	17.4
Interest expense and other financial charges paid	(93.0)	(121.2)
Taxes paid	(63.3)	(68.8)
Cash generated from operating activity (a)	489.8	386.4
Investment in tangible assets	(83.1)	(65.1)
Investment in intangible assets	(168.4)	(164.3)
Investments in companies and business units net of cash and cash equivalents	(5.4)	(5.3)
Selling price of tangible and intangible assets (including lease-back transactions)	8.1	3.7
Divestment of unconsolidated companies and contingent consideration	0.2	-
(Increase) / Decrease other investment activities	18.6	(10.8)
Cash generated / (absorbed) by investment activity (b)	(230.0)	(241.8)
Refund and other change in financial debt	(271.3)	(334.9)
Fees paid for financial leasing	(2.8)	(3.8)
Acquisition of share in consolidated companies	-	(33.4)
Share capital increase	-	9.1
Dividends paid out to Hera shareholders and non-controlling interests	(144.4)	(145.0)
Change treasury shares	(3.6)	4.9
Cash generated / (absorbed) by financing activity (c)	(422.1)	(503.1)
Effect of change in exchange rate on cash (d)	-	-
Increase / (Decrease) Cash (a+b+c+d)	(162.3)	(358.5)
Cash and cash equivalents at the beginning of the period	541.6	834.5
Cash and cash equivalents at the end of the period	379.3	476.0

# 2.01.05 Statement of changes in equity

(Gmln)	Share capital	Reserves	Riserve strumenti derivati valutati al fair value	Reserve actuarial income/(losses) post- employment benefits	Profit for the period	Equity	Non-controlling interests	Total
Balance at 31 December 2014	1,469.9	707.5	(1.1)	(30.2)	164.8	2,310.9	148.1	2,459.0
Profit for the period					125.0	125.0	9.9	134.9
Other components of comprehensive income at 30 September 2015:								
fair value of derivatives, change in the period			0.4			0.4	0.3	0.7
Actuarial income / (loss) post-employment benefits				4.9		4.9	0.5	5.4
Other comprehensive income items companies measured with the equity method		0.1				0.1	0.0	0.1
Total comprehensive Income for the year	-	0.1	0.4	4.9	125.0	130.4	10.7	141.1
Change treasury shares	2.2	2.8				5.0		5.0
Payment for non-controlling shares						-	9.1	9.1
changes in equity interests		(15.7)		(0.1)		(15.8)	(17.6)	(33.4)
Other movements		(0.1)				(0.1)	(0.1)	(0.1)
Allocation of 2014 profit :								
- dividends distributed		(6.3)			(126.4)	(132.7)	(9.7)	(142.4)
- allocation to other reserves		8.1			(8.1)	-		-
- allocation to retained earnings		30.3			(30.3)	-		-
Balance at 30 September 2015	1,472.1	726.7	(0.7)	(25.4)	125.0	2,297.7	140.5	2,438.2
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 / (loss) 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
Total comprehensive Income for the year		0.1	0.1	(6.7)	142.2	135.7	9.2	144.9
Change treasury shares	(1.2)	(2.4)				(3.6)		(3.6)
Payment for non-controlling shares						-	-	-
changes in equity interests		2.1				2.1	(2.1)	-
Other movements						-		-
Allocation of 2015 profit :						-		-
- dividends distributed		-			(132.5)	(132.5)	(11.4)	(143.9)
- allocation to other reserves		39.5			(39.5)	-		-
- allocation 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

#### 2.02 EXPLANATORY NOTES

#### Accounting policies and evaluation criteria

As in the past, the Hera Group has voluntarily decided to publish the consolidated three-month report as of 30 September 2016. This interim management report was not prepared in accordance with the accounting principle regarding the sub-annual financial statement (IAS 34 "Interim Financial Reporting"). Accordingly, the accounting principles utilized are the same as those used in preparing the consolidated financial statements as of 31 December 2015, which can be consulted for more detailed information, in addition to those required by law beginning 1 January 2016.

The preparation of this interim management report requires estimates and assumptions to be made that affect the reported amounts of revenues, expenses, assets and liabilities as well as disclosures relating to contingent 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 entirely applied 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 disclosures contained in this interim report are comparable with those for prior periods. 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 dedicated section.

#### **Financial statements**

The format used for the financial statements is the same as that used for the consolidated financial statements at 31 December 2015. Specifically, the income statement is presented in vertical format, with the individual items analysed by nature. 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 overall income statement is presented, in compliance with IAS 1 revised, as a separate report from the income statement and distinguishes between items that can or cannot be reclassified for the purposes of the income statement. The other elements comprising the overall income statement are addressed separately in the statement of changes in the net equity as well. The diagram regarding the statement of financial position shows the distinction between current and non-current assets and liabilities. The cash flows statement was drafted using the indirect method, in accordance with IAS 7.

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

The financial statements contained in this interim report are expressed in millions of Euros, unless otherwise indicated.

#### Scope of consolidation

This interim report includes the financial statements of the parent company, Hera Spa, and its subsidiaries. Control exists when the parent company has the power to influence the subsidiary's variable returns or, when, through exercise of its currently valid rights it has the ability to direct the subsidiary's significant activities. Subsidiary companies which are not significant in size and those in which voting rights are subject to severe long-term restrictions are excluded from the scope of line-by-line consolidation and are carried at cost.

Investments in joint ventures (defined by the IFRS 11 principle), which the Group controls jointly with other companies, are accounted for with the equity method. Also companies on which a significant influence is exercised are accounted for with the equity method. Investments held for negligible amounts are recognized at cost.

Companies held for sale are excluded from consolidation and measured at their fair value, with the exception of cases in which fair value cannot be determined accurately, when they are recognized at cost. These investments are recorded as separate items.

No changes in the scope of consolidation have come about in the first three months of 2016 with respect to the financial statements for the year ended 31 December 2015.

The list of companies included in the scope of consolidation is available at the end of these explanatory notes.

#### Changes in the scope of consolidation

The variations in the scope of consolidation occurred in the initial nine months of the 2016 financial year as compared to the consolidated financial statement as at 31 December 2015 are the following:

Consolidated companies (fullly or with the equity method)	Companies no longer consolidated (fully or with with the equity method)	Notes	
Julia Servizi Più Srl		Acquisition of control	
Inrete Distribuzione Energia Spa		Operating	
	Ghirlandina Solare Srl	Valued at cost	

Beginning 1 July 2016 the company Inrete Distribuzione Energia Spa has entered the scope of consolidation and has been consolidated in its entirety, becoming operational as a result of the transfer of the gas and electricity distribution business units by the parent company Hera Spa.

#### Changes in the ownership interest

As at 18 July 2016, the company Hera CommSrl sold to Hera Comm Marche Srl, one of its subsidiaries, the investments it held in Fucino Gas Srl and Julia Servizi Più Srl, both already fully consolidated. The percentage of the Group's ownership interest in the two companies went from 100% to 72.01%.

In previous operations, the difference between the adjusted amount of minority interests and the fair value of the sum paid was recorded directly under net equity and allocated to shareholders of the parent company.

#### Other corporate operations

As at 27 June 2016, the merger of the companies NewecoSrl and Rew Trasporti Srl into Waste RecyclingSrl was completed.

As at 7 July, the merger of the company Rila Gas Ead into Black Sea Technology Company Ad, with AcegasApsAmga Spa holding an interest in both of them and operating in Bulgaria. The incorporating company name was changed to Aresgas Ad.

#### **Profit per share**

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

	30-sep-2016 (9 months)	30-sep-2015 (9 months)
Profit (loss) for the period attributable to holders of ordinary shares of the Parent Company (A)	142.2	125.0
Weighted average number of shares outstanding for the purposes of calculation of earnings (loss)		
- basic (B)	1,472,842,222	1,473,432,637
- diluted (C)	1,472,842,222	1,473,432,637
Earnings (loss) per share (euro)		
- basic (A/B)	0.097	0.085
- diluted (A/C)	0.097	0.085

#### Other information

These interim financial statements for the three months ended on 30 September 2016 were prepared by the Board of Directors and approved by it during the meeting held on 9 November 2016.

# 2.03 NET BORROWINGS

(€mIn)		30 Sep 2016	31 Dec 2015
а	Cash and cash equivalents	379.3	541.6
b	Other current financial receivables	28.8	34.6
	Current financial debt	(96.3)	(129.2)
	Current bank debt	(86.2)	(284.9)
,	Other current financial liabilities	(62.0)	(68.2)
	Finance lease payments maturing within 12 months	(1.6)	(2.0)
С	Current financial debt	(246.1)	(484.3)
d=a+b+c	Net current financial debt	162.0	91.9
	Non-current bank debt and bonds issued	(2,821.5)	(2,845.4)
,	Other non-current financial liabilities	(5.2)	(5.8)
	Finance lease payments maturing after 12 months	(15.5)	(17.6)
е	Non-current financial debt	(2,842.2)	(2,868.8)
f=d+e	Net borrowings - Consob communication n° 15519/2006	(2,680.2)	(2,776.9)
g	Non-current financial receivables	113.2	125.2
h=f+g	Net financial debt	(2,567.0)	(2,651.7)

# 2.04 EQUITY INVESTMENTS

#### 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%
AcegasAps Service Srl	Padova	180,000		100.00%	100.00%
Amga Calore & Impianti Srl	Udine	119,000		100.00%	100.00%
Amga Energia & Servizi Srl	Udine	600,000		100.00%	100.00%
ASA Scpa	Castelmaggiore (BO)	1,820,000		38.25%	38.25%
Biogas 2015 Srl	Bologna	1,000,000		75.00%	75.00%
Aresgas AD	Sofia (Bulgaria)	22.572.241 Lev		99.98%	99.98%
Black Sea Gas Company o.o.d	Varna (Bulgaria)	5.000 Lev		100.00%	100.00%
Esil Scarl	Bologna	10,000		100.00%	100.00%
Feronia Srl	Finale Emilia (MO)	2,430,000		52.50%	52.50%
Frullo Energia Ambiente Srl	Bologna	17,139,100		38.25%	38.25%
Fucino Gas Srl	Luco dei Marsi (AQ)	10,000		72.01%	72.01%
HeraAmbiente 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%
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%
Insigna Srl	Padova	2,000,000		100.00%	100.00%
Julia Servizi Più Srl	Giulianova (TE)	50,000		72.01%	72.01%
Marche Multiservizi Spa	Pesaro	13,484,242	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 Srl	Padova	100,000		70.00%	70.00%
Uniflotte Srl	Bologna	2,254,177	97.00%		97.00%
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	Firenze	10,000		39.50%	39.50%
Set Spa	Milano	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%

<sup>\*</sup> 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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