

YEAR 12 The information contained in this newsletter is as at 10 May 2017

03



Message from the Executive Chairman of the Board

01

First-quarter results above expectations



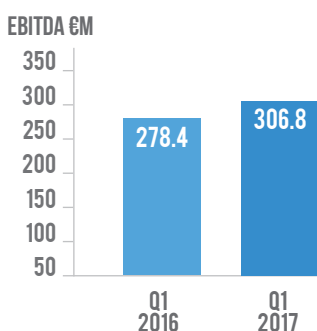
Tomaso Tommasi di Vignano

Dear Shareholders, During the early months of 2017, Hera has made great progress. Firstly, even though the outside scenario remains very challenging, the first-quarter P&L shows an EBITDA increase of more than 10% and net earnings rising by over 10%. These improvements - which in size were above expectations - in their essence prove the effectiveness of Hera's consolidated business model. In the past quarter, moreover, all business areas in our portfolio provided a positive contribution to EBITDA growth. Last but not least, the serious effort aimed at extracting new efficiencies in Networks – a practice that has characterised Hera over the last 15 years – was key to tackling the WACC decrease set by Regulator at the end of 2015. Significant achievements materialised also in the Governance field. On 27 April 2017, during the Annual Meeting, shareholders appointed the new members of the Board of Directors, in charge for leading the Company along the way indicated in the 2016-2020 Business Plan. Following the 2015 By-Laws amendments, we could increase the number of Board Directors from 14 to 15; this change made it possible to have four Directors appointed by the minority

lists, while in the past we had three members at most. The Remuneration Policy – which has been reviewed in order to include, for instance, the claw-back clause and to modify the long-term incentive system – has met with strong support, as 95.74% of shares represented at the Meeting voted in favour.

Healthy first-quarter results enhance the visibility of next objectives

The newly-appointed Board is composed of members boasting highly professional quality and technical competences, one third of them being women. Lastly, the confirmation of the Executive Members of the Board is an important premise for ensuring continuity to strategy execution. Therefore, with renewed commitment, and with the confidence that good quarterly results already provide, we will work to reach next objectives and to create further shared value for all Group stakeholders.



All business areas in Hera's portfolio contributed to the increase in Group EBITDA



Q1 2017
(data in €m)

REVENUES
1,585.5
(+28.3%)

EBITDA
306.8 (+10.2%)

EBIT
187.3 (+9.7%)

NET INVESTMENTS
154.1 (+125%)

NET FINANCIAL DEBT
2,548.7 (-0.4%)

Message from the CEO

02

EBITDA driven by organic growth, with the benefits of the newly-acquired Company, Aliplast, that will become visible only starting from the Interim Reporting

Focus on Q1 2017 results



Stefano Venier

First-quarter 2017 results show **substantial growth** in key financial indicators, with the nature of **EBITDA increase** being almost entirely **organic**. The newly-acquired Company, Aliplast, leader in Italy in plastic recycling, will be included in the scope of consolidation only starting from the 2017 Interim Reporting. The **EBITDA growth of 8.4 €m** was for

approximately **one sixth** (i.e. 4.5 €m) driven by **efficiencies**. The **market expansion** played the **leading role** (+23.2 €m), thanks especially: i) to the 2017-2018 **safeguard service** awarded to Hera Comm in 11 Italian regions (impact close to 11 €m); ii) to the 5 lots of the **default service for gas distribution**, awarded to Hera Comm for the 1 October 2016-30 September 2018 period (impact of 3 €m).

Earnings increase exceeds 20%

Revenues' growth, exceeding 350 €m, above all reflects the impact of 193 €m deriving from the new accounting method of general system charges in sales companies. The remaining part of growth was mainly driven by healthy Trading results (+85 €m), by the 28 €m rise due to higher volumes in Gas business, and, lastly, by higher price in the energy commodity (43 €m).

The **10.2% EBITDA increase**, which reaches 306.8 €m, is the result of **positive performances in all portfolio activities**. The most significant **push** came from energy areas (+16 €m), due to higher margins in the safeguard activities of electricity and in those of default gas. The contribution to EBITDA growth coming from **Networks** was not negligible (+6 €m), with the Water business playing the most relevant role. The **Waste** area EBITDA, even though rising below average (+2.6% vs. +10.2% for the Group), anyhow provides encouraging signs in terms of organic growth, considering that CIP6 incentives

for the Isernia WTE plant expired in April 2016. In addition, Hera concentrated important maintenance activities in Q1 2017, particularly at the Trieste plant. **Group EBIT**, which grows by 9.7%, shows an increase in line with that of EBITDA, after the absorption of an 11.2% increase in Depreciation and Provisions, as a result of new investments in regulated activities and of the increase in doubtful debt provisions linked to the award of the safeguard service tender. The result from **financial management** shows a **10.1% decline in expenses** vs. Q1 2016, so proving the effectiveness of the policies pursued with the aim of controlling debt while optimising its cost. In addition, the **fiscal management** area provided a positive contribution to the dynamics of the P&L bottom line, with **tax rate decreasing** from 33.3% in Q1 2016 down to 29.8%, due to the cut of 3.5 percentage points in corporate tax rate (IRES). In Q1 2017, **Net Profit after Minorities** therefore amounted to 109.9 €m, increasing by 20.5%.

EBITDA (€M)	Q1 2016	Q1 2017	CHANGE
WASTE	62.4	64.0	+2.6%
WATER	49.8	53.3	+6.9%
GAS	130.3	135.6	+4.1%
ELECTRICITY	31.6	48.4	+53.2%
OTHER	4.2	5.5	+30.2%
TOTAL	278.4	306.8	+10.2%

Cash generation makes it possible to finance strongly increasing investments

Net financial **debt**, which as at 31 March 2017 is 2,548.7 €m, **slightly improves** (+10.2 €m) compared to 2016 year-end. The **significant cash flow from operations**, equal to 211 €m, allowed Hera to absorb the 22 €m rise in net working capital as well as the **strong increase in net investments**,

which reached 154.1 €m in Q1 2017, compared to 68.5 €m in Q1 2016. **Operating investments** were 76.2 €m, a **4.4% increase** over Q1 2016, while **financial investments** – essentially represented by the acquisition of the **Aliplast** Group – totalled **88.7 €m**. In Q1 2016, Hera's financial investments were zero.

At the Annual General Meeting, shareholders appointed the new Board of Directors

On 27 April 2017, the Hera Shareholders' Meeting approved the Annual Report and the Sustainability Report for the Fiscal Year 2016, in addition to the distribution of a dividend of 9 euro cents per

share, in line with the proposal of the Board of Directors. The shareholders also appointed the 15 members of the Board of Directors, which will remain in office for next three years. The Board is composed as follows:

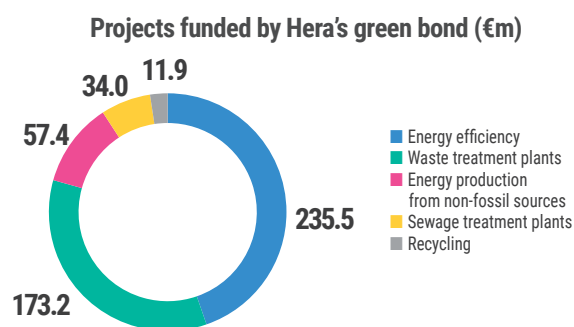


- Directors appointed by the majority list, submitted by public shareholders
- Directors appointed by the minority list, submitted by Asset Management Companies
- Directors appointed by the minority list, submitted by Gruppo Società Gas Rimini S.p.A.

Tomaso Tommasi di Vignano	Executive Chairman
Stefano Venier	Chief Executive Officer
Giovanni Basile	Non-Executive Vice Chairman
Giorgia Gagliardi	Independent Director
Stefano Manara	Independent Director
Danilo Manfredi	Independent Director
Giovanni Xilo	Independent Director
Sara Lorenzon	Independent Director
Marina Vignola	Independent Director
Aldo Luciano	Independent Director
Federica Seganti	Independent Director
Erwin Paul Walter Rauhe	Independent Director
Francesca Fiore	Independent Director
Duccio Regoli	Independent Director
Massimo Giusti	Independent Director

Hera's green bond included in the "green and/or social bonds" segment of the ExtraMOT market

Starting from 20 April 2017, the Hera's bond was included in the "green and/or social bonds" segment of the ExtraMOT market of Borsa Italiana, a segment grouping together the issues focused on the funding of environmental and/or social projects. Hera issued the 10-year green bond in 2014 – being the first company to launch such an issue in Italy – with the declared intention to using those proceeds with the aim of funding or re-financing sustainability-linked projects. In the meantime, the means coming from the issue - 500 €m - have already been invested in 26 projects, which have also been presented in the 2016 Sustainability Report. The breakdown of invested proceeds is as follows:



Features of Hera's 2014-2024 green bond

Amount	500 €m	Annual coupon	2,375%
Maturity	10 years	Yield to maturity	2.436%

Smart ecological station – Hera's innovation in the service of Smart Cities

The project recently launched by Hera aims at aggregating different city services at a single point, with a view to optimising energetic, environmental, economic and IT resources. Services provided at the new smart ecological stations include urban waste collection, monitoring of environmental quality, video surveillance, telecommunications and charge of electric vehicles. The range of different technologies needed to provide the services available at the new ecological stations are accessible at the "Smart Totem", which is a single device, scalable according to the specific needs. The new initiative provides different advantages:

- Improvement of the quality of urban living, with the standardisation of waste ecological stations and the creation of a point aggregating main urban services.
- Care for the environment, through the monitoring of key-parameters in the measurement of the quality of city life.
- Higher security provided by a video surveillance system.
- Broader communication opportunities, through Wi-Fi, data concentrators and other tlc devices.
- Practical support to sustainable mobility, with the development of the urban network of electric charge for vehicles and bicycles.

Hera Share

Price as at 9 May 2017: **2.75 €**

High-Low 365 dd: **2.75-1.88 €**

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

Mkt. Cap: **4.10 bn €**

Consensus target price **2.84 €**

(source: broker research)

Hera's stock index membership

FTSE Italia | All-Share Capped + All-Share + Mid Cap + Servizi Pubblici

STOXX | Total Market Index+Europe+Europe ex-UK+Italy

STOXX | TMI+Europe nei segmenti: Utilities, Gas-Water & Multiutilities, Value

Axia Ethical

Kempen SNS | Smaller Europe SRI Index

FTSE ECPI | Italia SRI Benchmark + Italia SRI Leaders + Ethical Index EMU

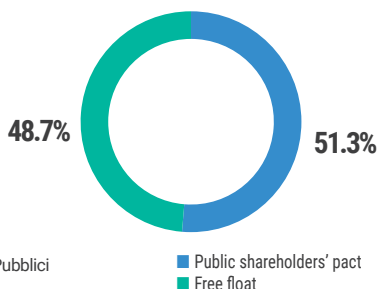
From the time of publication of the last newsletter to date, the **Hera's stock continued the upward movement** started in early December 2016, reaching a new period's high at 2.68 euro on 11 April 2017.

During the following trading days, the stock has consolidated the rally laterally. Starting from autumn 2016, the **utility sector** has been **penalised** by the substantial **rotation** that was taking place in equity funds' portfolios, which has favoured cyclical stocks with a view to the economic recovery, while penalising other sectors, such as the utilities, since their valuations based on Discounted Cash Flow (DCF) models decrease in a higher interest rate scenario. At this stage, therefore, the membership in the **utility sector has partly held back Hera's stock performance**; on the other hand, investors' interest in the opportunities that open up with the launch of the "**PIRs**" (Piani Individuali di Risparmio, i.e. Individual Savings Plans) in Italy has been a **positive factor**.

So, all in all, Hera **could continue to trade at higher multiples** than those of its comparables, being also supported, when it comes to Company-specific factors, by consistent confirmations coming from strong fundamentals and by an attractive 2016 dividend yield that exceeds 4%.

In the early months of 2017, Hera's stock price benefitted from the positive reactions to the 2016-2020 Business Plan and from the sound results of the 2016 fiscal year

SHAREHOLDERS



HERA'S STOCK PRICE SINCE BEGINNING 2016



HERA VS. FTSE ITALIA ALL-SHARE INDEX SINCE BEGINNING 2016



ANALYST COVERAGE

BROKER	TARGET PRICE €	RATING
BANCA AKROS	2.80	BUY
BANCA IMI	3.10	BUY
EQUITA	2.80	HOLD
FIDENTIIS EQUITIES	2.55	HOLD
ICBPI	3.03	BUY
INTERMONTE	2.90	OUTPERFORM
KEPLER CHEUVREUX	2.90	BUY
MAINFIRST	2.60	NEUTRAL
MEDIOBANCA	2.90	OUTPERFORM
9 BROKERS' AVERAGE	2.84	

9 May 2017

Following the release of full-year earnings, several brokers reviewed their target price for Hera, improving their own valuations. The average **target price** therefore moved from 2.77 euro up to **2.84 euro**. **Ratings** still provide a strong support to the stock price, considering that they mostly consist of **Buy** or **Outperform** recommendations. Despite the upward movement in the last few months, at recent prices, Hera's stock remains below its consensus target price, indicating potential scope for further rise.

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