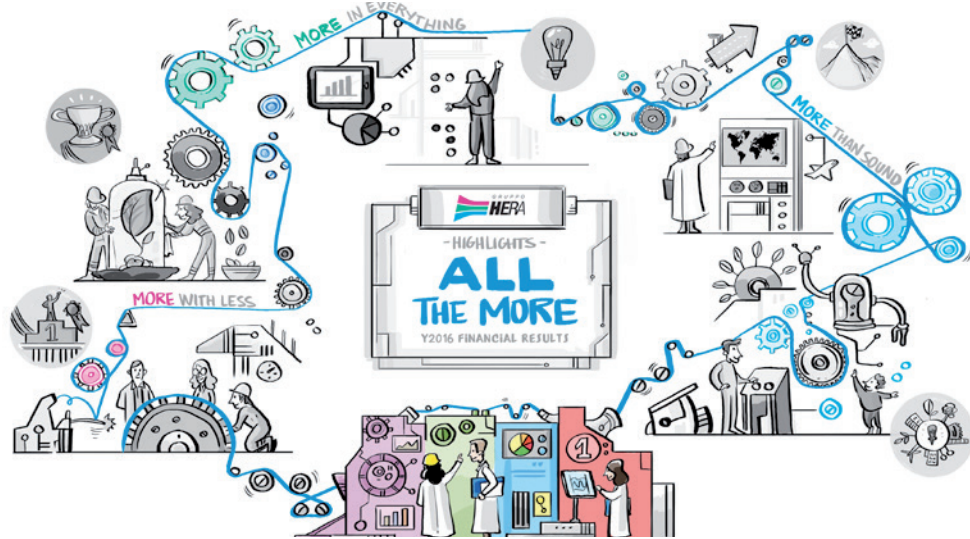


YEAR 12 The information contained in this newsletter is as at 21 March 2017

02



Message from the Executive Chairman of the Board

01

2016 results above expectations



Tomaso Tommasi di Vignano

Dear Shareholders, Results achieved in 2016, first year of the Plan's period, prove that we are well on track to meet the 2020 committed targets. At the beginning of the year, we knew that we had to face a regulatory environment reducing returns on invested capital in about half of the total business portfolio. Therefore, we decided to explore every lever that we could use in view of ensuring the continuity of the uninterrupted series of EBITDA increases experienced in the last 15 years. The 3.6% rise reached in 2016 proves that we have succeeded. Our multi-business model has enabled us to offset the impact of lower WACC in regulated areas, by exploiting the opportunities provided by energy sales, mostly in the second half of the year.

Moreover, between the end of 2015 and the early months of 2017, Hera continued along its growth path.

On top of organic growth, the Company closed six M&A deals, out of which four acquisitions entered the scope of consolidation in the 2016 fiscal year; the contribution coming especially from Waste Recycling and Geonova was not negligible. Following the anti-trust authorisation, in 2017 we can also rely on the consolidation of Aliplast and Teseco, the last two companies that have joined our portfolio. The strong cash flow generation paved the way

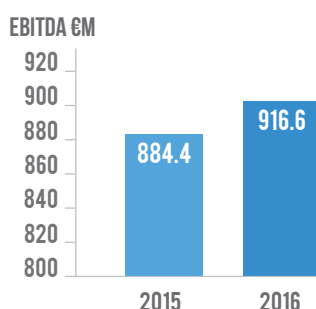
to a decrease of the "Debt-to-EBITDA" ratio. The 2.8x level reached at 2016 year-end matches the 2020 target. Such strengthening of the financial flexibility allows us to explore new attractive M&A deals, by sticking to the usual non-dilutive conditions.

The quality of 2016 financials takes shape also in the efficiencies achieved in both the financial and fiscal area. Thanks to them, the EBIT improvement succeeded in translating into a sizeable increase at bottom line, where Net Profit

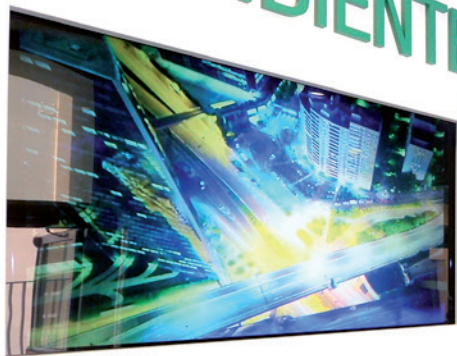
Quality and strength of 2016 results are even more valuable considering the challenges of the outside environment

after Minorities grew by 14.8%, reaching 207.3 million euro.

The 9 cents dividend per share proposed by the BoD, in line with the policy stated in the Business Plan, indicates a 4.1% yield on the 2016YE price of 2.192 euro. Also in a challenging environment, as the 2016 proved to be, Hera preserved its equity story, providing shareholders with an attractive level of remuneration, against a limited risk profile resulting from well-balanced asset mix and consolidated business model.



Strong cash flow generation in 2016 led to stronger financial flexibility



Y 2016
(data in €m)

REVENUES
4,460.2 (-0.6%)

EBITDA
916.6 (+3.6%)

EBIT
457.1 (+3.4%)

NET INVESTMENTS
366.4 (+10.1%)

NET FINANCIAL DEBT
2,558.9 (-3.5%)

Message from the CEO

02

Organic growth and M&A counterbalanced the effects of a challenging scenario

Focus on Y 2016 results



Stefano Venier

2016 results reflect the effectiveness of Hera's initiatives aimed at facing the negative impact of legislative and regulatory changes. While continuously looking for new cost efficiencies, the Company leveraged on competitiveness in order to expand market shares in Energy and win some bids – safeguard customers, Italy default gas business, and heating district in Modena, just to name the most relevant ones.

The contribution of **organic growth** to consolidated EBITDA was 66.4 €m. In addition, the **M&A** lever generated visible results, providing an incremental contribution of 13.8 €m in terms of EBITDA. The sum of those two growth drivers, exceeding 80 €m, has more than offset the 48 €m decrease due to lower environmental incentives and to reviewed WACC, allowing for a 32.2 €m EBITDA increase vs. 2015.

Sizeable increase in profitability

Consolidated Revenues, declining by 0.6% compared to 2015, were affected by the WACC cut, as well as by the lower value of revenues from sale and trading of electric energy and gas, due to the fall of the commodity price.

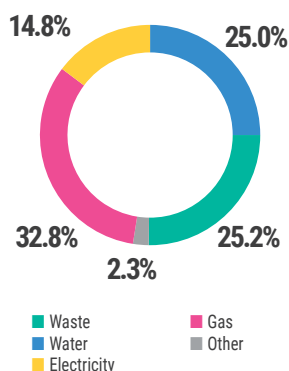
The 3.6% growth achieved at EBITDA level resulted from **good performances in the energy areas**, higher margins at the power plants, and effective results in sales and trading. Even **Networks' contributions** to EBITDA were remarkable, provided that the new WACC has led to a reduction of 9.8 €m in Gas, 2.9 €m in Electricity, and 2.9 €m in Water. The same considerations apply to the **Waste** business, whose EBITDA improves by 0.3% against a 16 €m reduction in incentives.

EBIT, up by 3.4%, shows an increase in line with that of EBITDA, after absorbing a 3.9%

rise in Depreciation and Provisions. The result from financial management, which presents a decrease in charges of 16.9 €m vs. 2015, benefits from lower average **net financial debt**. It also incorporates the favourable effects produced by the liability management initiatives on the **cost of debt**, which dropped by 3.7%.

Even the fiscal management provided a positive contribution, mostly taking advantage of the benefits brought about by the Stability Laws of the last few years. Tax rate therefore moved from 36.9% in 2015 down to 35.1%, favouring the **strong bottom-line performance**. Net Profit after Minorities was 207.3 €m, a 14.8% increase over the previous fiscal year. The P&L Statement shows the marked growth of net profitability, as the 'Net Profit-to-Revenues' ratio jumps from 4.3% in 2015 up to 4.9% in 2016, and ROE reaches 8.6%, from 7.8% in 2015.

2016 EBITDA Breakdown



Financial strength continuously increasing through sizeable cash flow from operations

The significant operating cash flow, equal to 608.9 €m, together with the effective management of working capital, covered capex and provisions, generating a **Free Cash Flow of 267 €m**.

Hera could therefore fund the distribution of the 2015 dividend, for 144 €m, and a large portion of the costs for the acquisitions closed in 2016. At 2016 year-end, net financial **debt** was 2,558.9 €m, therefore showing a 93 €m **improvement**.

EBITDA (€M)	2015	2016	CHANGE
WASTE	230.0	230.7	+0.3%
WATER	232.5	228.8	-1.6%
GAS	299.5	300.6	+0.4%
ELECTRICITY	101.0	135.3	+34.0%
OTHER	21.4	21.3	-0.6%
TOTAL	884.4	916.6	+3.6%

Sustainability from the 'Shared Value' perspective

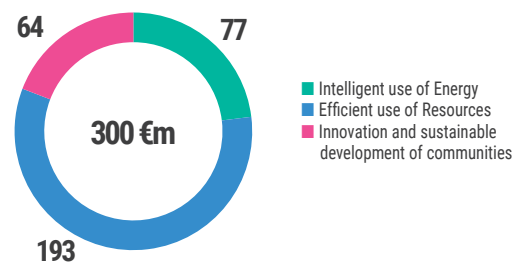
Hera's approach to Creating Shared Value already led to the measurement of the contribution provided from business activities to the achievement of the priorities in the global Agenda, in the framework of the 2016 Sustainability Report. The application of this methodology indicates that "Shared Value EBITDA" represented approximately one third of consolidated EBITDA.

In 2016 Hera started a process aimed to define its approach to Creating Shared Value (CSV), the theory that Mr. Porter and Mr. Kramer presented in the Harvard Business Review article issued in 2011. According to such theory, corporates can create shared value through policies and practices that enhance their own competitiveness, at the same time meeting both the needs of the communities into which they operate and the social challenges. Hera's operating strategy, which has long incorporated sustainability issues, today widens, adding projects and activities in the CSV dimension, which create a clear connection between the ONU 2030 agenda and business opportunities. During 2016 Hera analysed the global Agenda and the need for change that it includes, with the aim of identifying a set of "calls to action" fitting its specific nature. Such process allowed Hera to focus on 3 change drivers and 9 impact areas that, once linked to the priorities of the global Agenda, provided the identification of 58 "We will do...", i.e. perspective objectives presented in the 2016 Sustainability Report.

Hera can already report a relevant portion of the shared valued

represented by services and activities across the communities, and by industrial projects. For the first time, in the 2016 Sustainability Report Hera presents its own contribution to the priorities of the global Agenda, being a pioneer at European level. During the year the Company generated an EBITDA of ca. 300 €m - approximately 33% of total EBITDA - from "Shared Value" activities. The breakdown by change drivers and specific impact areas is shown in the following infographics.

2016 "Shared Value" EBITDA (€m)



ENERGY 77 €m	RESOURCES 193 €m	COMMUNITIES 64 €m	Change Drivers
29 €m Dissemination of renewable energies 48 €m Promotion of energy efficiency	110 €m Transition to a circular economy 83 €m Sustainable management of water resources	35 €m Economic development and social inclusion 18 €m Dissemination of innovation and digitalisation 11 €m Air and soil protection	Impact Areas

The 2016 Sustainability Report highlights key achievements from the Shared Value perspective. Most of them focus on the last fiscal year.

INTELLIGENT USE OF ENERGY	EFFICIENT USE OF RESOURCES	INNOVATION AND SUSTAINABLE DEVELOPMENT OF COMMUNITIES
ISO 50001 certification achieved for six companies in the Hera's Group Using exclusively renewable energies in any activity operated in Emilia Romagna -10% Carbon footprint from energy production	8.1% Percentage of waste going to landfills 5 interventions concluded out of 11 planned for the Rimini sewer system, with the aim of safeguarding bathing 4 efficiency improvements in different sewage plants	Hergo Ambiente 100% IT-based management of urban waste in Triveneto in the Marche region 1.6 €bn Value distributed to stakeholders 4,500 people Effects on employment

Hera Share

Price as at 20 March 2017: **2.50 €**

High-Low 365 dd: **2.66-1.88 €**

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

Mkt. Cap.: **3.73 € bn**

Consensus target price 2.77 €

(source: broker research)

Hera's stock index membership

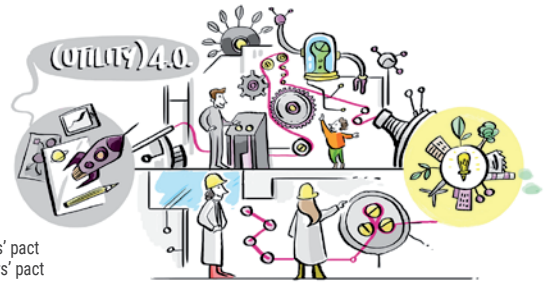
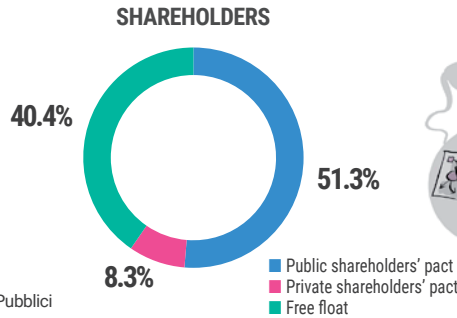
FTSE Italia | All-Share Capped + All-Share + Mid Cap + Servizi Pubblici

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



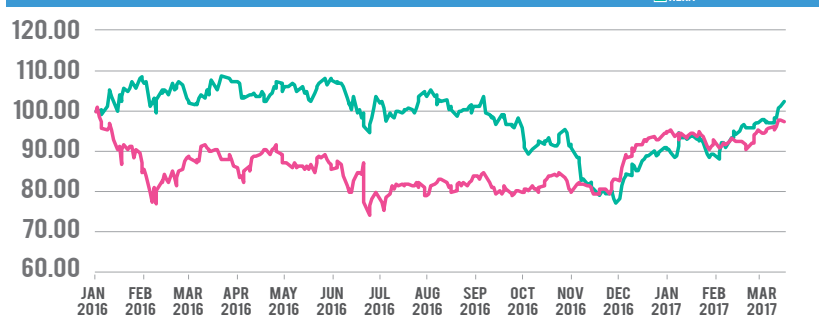
Since 9 November 2016, when the last 2016 newsletter was issued, to date, the Hera's stock achieved a substantial increase. The fast rise in bond yields occurred after the summer has triggered a rotation in funds' equity portfolios that led to a sell-off of utilities, media and telcos from investors switching to cyclicals. Such process affected also Hera, notwithstanding the sound fundamentals proven by the quarterly earnings released. The stock price therefore bottomed at 1.88 euro on 2 December 2016, when the country-risk for Italy worsened - especially the risk perceived by international investors - nearing the constitutional referendum of 4 December 2016. The quick solution to the government crisis removed the fears of a longstanding political instability and paved the way to a recovery trend, which has involved the Hera's stock, in line with the uptrend of the Italy all-share index

The 2016-2020 Business Plan, which the Company's senior management presented on 11 January 2017, was welcome, thus providing additional support to the Group stock performance.

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	2.70	HOLD
FIDENTIIS EQUITIES	2.55	HOLD
GOLDMAN SACHS	2.60	BUY
ICBPI	3.03	BUY
INTERMONTE	2.80	OUTPERFORM
KEPLER CHEUVREUX	2.80	BUY
MAINFIRST	2.60	OUTPERFORM
MEDIOBANCA	2.75	OUTPERFORM
10 BROKERS' AVERAGE	2.77	

20 March 2017

The average target price for Hera is 2.77 euro, substantially in line with the 2.83 euro level as of 8 November 2016, when the newsletter was lastly issued, at the time of the nine-month earnings' release. Despite the impact on valuations deriving from the rise in bond yields, provided that investors discount future cash flows at higher interest rates, the picture of brokers' ratings for the Hera stock remains very favourable, as eight analysts have 'Buy' or 'Outperform' recommendations. The substantial gap between the brokers' target price and the stock price indicates attractive potential room for further price increases.

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