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Increasing profitability in Hera's interim results



Dear Shareholders,
As proven by the 2.4% EBITDA increase, Hera presents a set of reassuring interim results, achieved in a complex scenario, which features weak GDP growth and increasing challenges arising from the new regulation. The 2.7% decline in Revenues reflects the impact of some exogenous factors that are independent from management skills. Firstly, the WACC cut set by the Regulator in December 2015, which lowered the remuneration of regulated businesses. Secondly, the mild winter temperatures, which limited gas consumptions. Thirdly, the commodity price decline, which reduced the value of gas and electric energy sales; and, again, the unavailability of some landfills, which forced us to resort to alternative solutions, while waiting for the Ravenna site being completely built by next quarter. Lastly, the end of CIP6 incentives for the WTE plant in Molise, and the reduction in contributions from Green Certificates, which led to the exhaustion of revenue streams from which we could benefit in 2015.

However, Hera succeeded in leveraging on some available factors: commercial campaigns went successfully ahead, therefore providing a client base increase also in H1. The continuous quest for new operating efficiencies made us achieve the highest possible EBITDA in each business area, given the external environment conditions, whilst quick integration processes

Hera can count on suitable organisation and financial flexibility for catching the opportunities provided by the coming gas tenders.

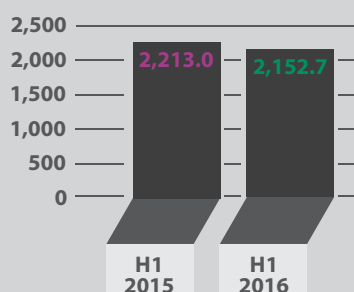
allowed for enjoying accreting contributions from recently acquired companies. Against slightly declining revenues, we have therefore achieved progresses both in terms of operations' management (with EBIT improving by more than 5%), and in terms of finance and tax management (with bottom line after minorities growing by 12.8%). We have moreover maintained a strong financial profile, while managing to reduce net financial debt by more than 27 million euro, despite the absorption of over 288 million euro due to capex and earnings distribution. Therefore, we can count on a financial flexibility that will be crucial in supporting future growth. Moreover, we have re-shaped the organisational structure to tackle the coming gas concessions' tenders, by establishing Inrete, a new company that is fully focused on regulated activities of gas and electric energy distribution. The experts' team managing Inrete will allow us to monitor the evolution of all tenders carefully, with the aim of getting ready for the selection process with the most

successful bidding strategy. The distribution gas in Italy still features the presence of several local public companies; we expect that the coming tenders will reduce the current number of operators from 220 to approximately 20 by the end of 2019. The Italian Government intends to encourage deep sector rationalisation, as proven by the so-called "decreto Madia" that reforms the Public Administrations. These new scenario elements, together with the Inrete characteristics - the Company boasts size allowing for economies of scale, strong financial structure and operational excellence - bring us to look forward with confidence to the attractive opportunities that open up with the coming gas tenders' season.

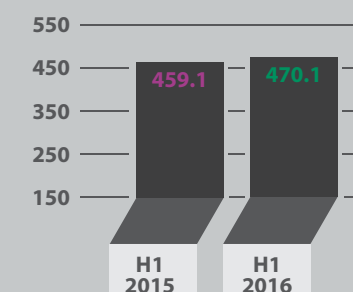
Tomaso Tommasi di Vignano

HERA MANAGED TO OFFSET UNFAVOURABLE EXOGENOUS FACTORS: +12.8% IN NET PROFIT.

Revenues m€



EBITDA m€





FIRST HALF 2016
(figures in million euro)

REVENUES	2,152.7 (-2.7%)
EBITDA	470.1 (+2.4%)
EBIT	257.4 (+5.1%)
NET OPERATING INVESTMENTS	152.2 (+9.1%)
NET FINANCIAL DEBT	2,624.4

Focus on H1 2016 results

/// The 2.7% decrease in Revenues, due to external drivers, did not prevent Hera from achieving a 2.4% EBITDA progress, mostly leveraging on the improved marginality of the Electric Energy area.

/// After remunerating shareholders (136 mn € dividends paid in June) and funding capex for 152.2 mn €, Hera manages to further reduce net financial debt (-27.3 mn € vs. 2015 YE).

In H1 2016 Hera consolidated Revenues amounted to 2,152.7 mn €, showing a 60.3 mn € decrease (-2.7%) compared to the same period of 2015. Such decline was mainly driven by:

- milder winter temperatures, which led gas volumes to fall;
- lower commodity price, affecting the value of sales and trading revenues in electric energy (-157 mn €);
- cut in the remuneration rate of invested capital (WACC), reflected on regulated revenues.

Some of the negative effects on consolidated Revenues have been offset by higher volumes sold in electric energy, higher volumes of energy produced by thermoelectric plants, and higher revenues in the Waste area, deriving from the increase in treated waste and from the accounting reclassification of the revenues from energy incentives (+61 mn €). Despite the Revenues' decline, EBITDA shows a 2.4% increase, mostly due to the sound operating performance in the Electric Energy area. The progress achieved at EBIT level is even higher; the 5.1% growth benefits from the decrease of D&A and Provisions (-0.6%). Financial operations continue to improve (-3.3 mn €; -5.4% vs. H1 2015), thanks to lower average net debt and to the initiatives aimed at making the debt cost more efficient. Even in the fiscal area, Hera created value: the tax rate decreases from 37.2% in H1 2015 to 35.7%, as a result of the application of "patent box" and tax credit on R&D activities; tax management moreover benefits from the maxi-depreciation relief.

Net profit post "minorities" therefore reached 121.0 million euro, recording a 12.8% increase.

With sound cash flow generation and lower receivables, Hera succeeded in fully funding the capital expenditure (growing by 9.1%), paying dividends to shareholders (136.1 mn €) and, at the same time, reducing Net Financial Debt, which falls from 2,651.7 mn € as at 31 December 2015 down to 2,624.4 mn € as at 30 June 2016.

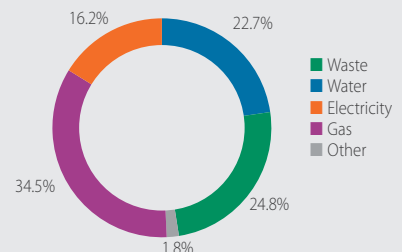
EBITDA € mn	H1 2015	H1 2016	Change
Waste	119.8	116.5	-2.8%
Water	107.6	106.6	-0.9%
Gas	172.5	162.0	6.0%
Electricity	49.6	76.3	+53.9%
Other	9.6	8.7	-9.4%
TOTAL	459.1	470.1	+2.4%

The increase in consolidated EBITDA (+2.4%) is the result of different performance across business areas. **Electricity**, whose EBITDA rose by 53.9%, drove the Group performance; despite lower WACC (resolution 583/2015) and declining energy prices, overall this area has benefitted from the 3.5% increase in the number of clients and from the 4.7% increase in energy sold volumes, in addition to higher thermoelectric production. The EBITDA increase in Electricity moreover reflects the impact of the resolution 645/15/eel, which allows for the time alignment of remuneration and depreciation of investments with the underlying costs; Hera applied such alignment to the investments made in the 1 January 2012- 30 June 2016 period, with a resulting increase of 13.8 mn € in revenues. The EBITDA of the **Waste** area shows a 2.8% fall; the 9.3% increase

in commercialised waste was supported by the dynamics of market waste (+20.1%), driven by the recent acquisitions of Waste Recycling and of the Geo Nova assets. The contribution from the newly consolidated companies is visible even in the 6.5% increase in treated waste, which was led by higher (15.4%) volumes managed in the selection plants, despite the penalising 17.5% reduction in the volumes sent to landfills. The **Gas** area, with EBITDA falling by 6.0%, discounts the WACC cut (5.3 mn € decrease in regulated revenues), the reduction of the commodity price and the contraction of sold volumes (-2.5%) due to unfavourable weather conditions. The EBITDA reduction has been partly limited by the 1.8% increase in the number of clients (also through the acquisition of Julia Servizi Più) and by better margins in sales' activities, whose volumes resulted in expanding

(+6.5%), mostly driven by trading (7.7%). Lastly, the slight decline in the **Water** EBITDA (-0.9%) is largely due to the new regulation (with a negative impact of 11.1 mn €), partly offset by efficiencies in operating expenses.

H1 2016 EBITDA Breakdown



Establishment of Inrete Distribuzione Energia

/// With the new organisational structure, Hera gets ready to play a leading role in the upcoming gas concessions tenders. Mr. Alessandro Baroncini, newly-appointed CEO of Inrete since 1st July 2016, introduces us to the key strengths of this new player.



On 2 June 2016, Hera established Inrete Distribuzione Energia SpA, the new company focused on gas and electric energy distribution.

The establishment took shape through the transfer of the relevant business unit to the new company, which is 100% controlled by Hera SpA.

This marks the final stage of the unbundling process provided by the Regulator

(AEEGSI Resolution 296/2015), aimed to separate management of regulated activities (gas and energy distribution) from management of deregulated activities (production, sales and procurement). Unbundling has the ultimate goal to increase competition, efficiency and quality in energy services provided to customers, along with cost benefits. In terms of network security and service quality, Inrete will ensure continuity to the commitment that has always characterised Hera's management choices and investment policies. Such commitment today provides Inrete with performance standards that exceed the minimum levels set by Authority.

For both businesses, Inrete is employing advanced remote control systems. Gas distribution can count on the Technological Pole in Forlì for the integrated management of plants and networks and for coordination of emergency calls. The Group's Remote Control Centre



located in Modena will provide similar services for the electric energy distribution. With the new organisation in place, Hera has the adequate structure to pursue the opportunities arising from the gas concession tenders, which are expected to take place in the 2016-2019 period for all the ATEM (Small Areas) located in the area covered by Inrete.



Employees: ca. 600 - Regulatory Asset Base (RAB): ca. 1 billion euro

	RETE GAS	RETE ELETTRICITÀ
Presence by Regions	Emilia Romagna and Toscana	Emilia Romagna
Presence by Provinces	Bologna, Modena, Ferrara, Ravenna, Forlì-Cesena, Rimini, Florence and Pistoia	Bologna, Modena and Ravenna
No. of served Municipalities	140	24
No. of clients served	ca. 1.1 million	ca. 260,000
Distribution network length	ca. 14,000 km	ca. 10,000 km

Creating art from waste

SCART® Magazine ready to go

Waste Recycling, company focused on the storage and treatment of industrial waste, which entered the scope of consolidation of the Hera Group in December 2015, since the 1990s carries on the SCART® project, dedicated to creating everyday objects and design works that utilise waste as raw material. The aim of the initiative is to incentivise responsible environmental behaviours, proving the artistic beauty and usefulness of waste. On 27 July 2016, in the framework provided by the Theatre of Silence of Andrea Bocelli at Lajatico, close to Pisa, the presentation of the

new SCART® Magazine took place, with the participation, among others, of Mr. Vittorio Sgarbi, the art critic. The first issue of the magazine, which will be published quarterly, is entirely focused on the illustration of what has been prepared for the opera shows at the Theatre of the Silence over the last four years, ranging from the stage costumes for the sopranos and the chorus, to the whole scenography as regards the ninth edition of the event. Moreover, SCART® has made more than 350 stage costumes for the opera that will be performed on the next 30 July at the Theatre of the Silence.



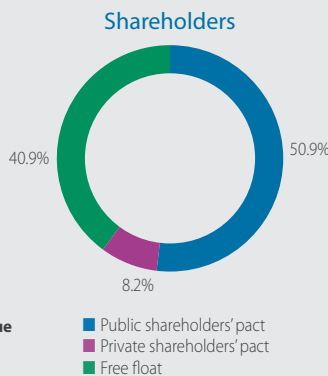
HERA SHARE

Price as at 27 July 2016: **2.46 €**
 High-Low 365 dd: **2.66-2.15 €**
 No. outstanding shares: **1,489,538,745**
 Mkt. Cap.: **3.66 bn €**

Consensus target price **2.81 €**
 (source: broker research)

Hera's stock index membership

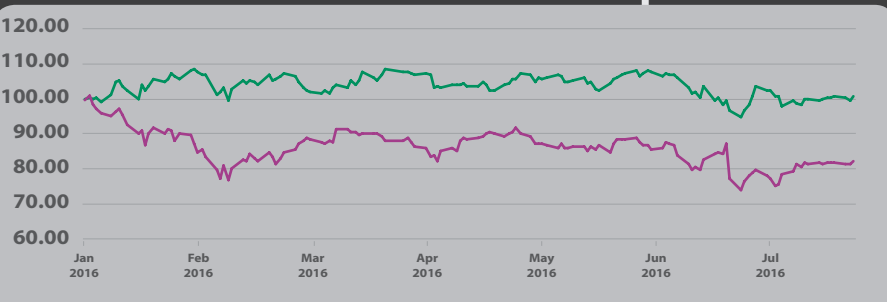
FTSE Italia | All-Share Capped + All-Share + Mid Cap + Servizi Pubblici
STOXX | Total Market Index + Europe + Europe ex-UK + Italy
STOXX | TMI + Europe nei segmenti: Utilities, Gas-Water & Multiutilities, Value
Axia Ethical / Kempen SNS Smaller Europe SRI Index
FTSE ECPI | Italia SRI Benchmark + Italia SRI Leaders + Ethical Index EMU



Hera's stock price since beginning 2016



Hera vs. FTSE Italia All-share Index - Performance since beginning 2016



Since the beginning of the year, Hera continues to outperform the Italian stock market index, supported by the healthy status of its historical and perspective fundamentals. The stock has repeatedly reached levels around 2.65 euro, which represent the period's highs: on a first occasion, in late January, at the end of the roadshow for the presentation of the new Business Plan; on a second occasion, in late March, following the release of FY2015 results; lastly, Hera has come close to the 2.65 euro level in late May, when 2016 first-quarter results were welcome in a general environment featuring declining bond yields. The days after the referendum that took place in Great Britain on 23 June 2016 – whose outcome has imposed the next exit of the Country from the EU -, the Hera stock has proven its defensive characteristics, as a utility with particularly strong fundamentals. In the trading day following the Brexit news, while the Italian stock market dropped 11.8%, being heavily penalised by the uncertain solution about banks' non-performing loans, the Hera's stock limited the correction to 3.1%, achieving the best relative performance among the sector peers in Italy. The strength and resiliency shown by the Hera stock even in the post-Brexit weeks paved the way, on 8 July 2016, to the success of the Accelerated Book Building (ABB). Through such transaction, 12 public shareholders, subscribers of the shareholder agreement signed on 23 June 2015, slightly reduced their holdings in Hera share capital, by selling 15.7 million shares to qualified investors, in Italy and abroad. The amount of shares sold accounts for 15.3% of the overall 102.5 million unlocked shares held by 117 Municipalities. The transaction took place at a price that was 4.3% lower than the closing price of the previous trading day, i.e. at the lowest discount among all the ABB transactions carried out by Italian companies since the beginning of the year. The public shareholders could therefore monetise part of their own investment with the aim of getting the liquidity needed for funding local projects, while maintaining significant stakes in the shares of a Company, like Hera, which presents attractive remuneration streams through dividends. On the other hand, following the ABB, the Hera stock can benefit from a liquidity increase, since the free float has risen from 48.1% up to 49.1%.

28 July 2016
 BoD for the approval of H1 2016 results

9 November 2016
 BoD for the approval of 9M 2016 results



ANALYST COVERAGE

Broker	target Price €	Rating
Banca Akros	2.80	Buy
Banca IMI	3.00	Add
Equita	2.64	Hold
Fidentis Equities	2.35	Sell
Goldman Sachs	2.90	Buy
ICBPI	3.03	Buy
Intermonte	3.00	Outperform
Kepler Cheuvreux	2.78	Buy
MainFirst	2.90	Outperform
Mediobanca	2.70	Outperform

10 brokers' average 2.81

27 July 2016

Consensus target price for the Hera stock is at 2.81 euro. The slightly lower level compared to the previous average target price (2.84 euro on 10 May 2016) reflects the higher risk premium, as Pan-European brokers updated their own valuation models for all the stocks they cover, following the Brexit news. The picture of ratings is still undoubtedly positive, since it presents eight buying recommendations (Buy/Outperform/Add) out of 10 analyst recommendations as a whole. Favourable ratings leverage on the sizeable undervaluation of the current stock price vs. the different analyst targets; noteworthy, three brokers have target prices equal to or exceeding 3 euro.

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