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Quarterly results strengthen the growth track record of Hera's EBITDA



Dear Shareholders, Q1 2016 results confirm that Hera can address and handle the challenges coming from the external environment, while keeping EBITDA on track, along the growth path indicated in the Business Plan. The 1.2 million euro increase over the same period of 2015 (+0.4%) is a great achievement in our eyes, considering the mild winter temperatures and the WACC cut (remuneration rate of invested capital) set by the Authority in December 2015, which produces an inevitable decrease of 9.5 million euro in the quarterly EBITDA.

How could we tackle those negatives and provide continuity to the EBITDA growth? On one hand we could count on additional 3.6 million euro deriving from the consolidation of the two acquisitions closed at the end of 2015 – Waste Recycling and Geo Nova – and, on the other hand, on the incremental contribution coming from organic growth (especially in liberalised businesses) and synergies extracted through integration processes. Undoubtedly, the WACC reduction heavily affects a group, like Hera, presenting a significant exposure to regulated activities. The Company will remain committed to tackling the negative effects of such a cut, over the coming months, through the achievement of greater efficiencies. Anyway, while efficiencies show up linearly throughout the fiscal year, the gas business seasonality makes the impact of the new WACC level more significant in the first quarter, given the higher

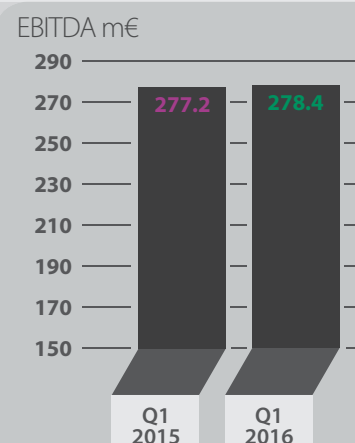
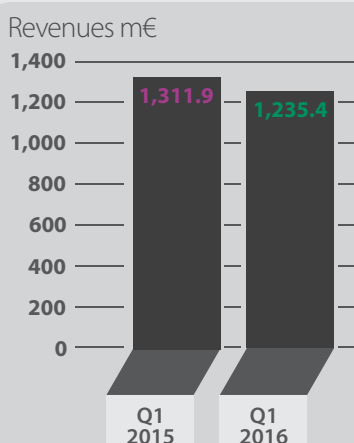
The 0.4% increase in EBITDA is an achievement, given the new regulatory parameters and the mild winter temperatures.

volumes that are typical of winter months. Especially in light of the performances recorded in a quarter in which it was "structurally" harder to succeed in growing at EBITDA level, we are therefore confident to be geared to the right direction, in order to successfully respond to the challenges arising from the new regulation. In Q1 2016 net earnings post minorities grew by 5.3%, i.e. at a higher pace than EBITDA. In addition to sound operating profits, we achieved good results in terms of both financial and fiscal efficiency: the 4.6 million euro improvement in net profit indeed reflects, in addition to the 1.2 million euro increase in EBITDA, also 3.7 million lower net financial expenses and a tax rate reduction allowing substantially stable taxes (+0.2 million). Thanks to the strong cash flow generation and lower net working capital, we could fund 68.5 million euro investments and record a free cash flow that reduced net financial debt by 147 million euro, to 2.50 billion. Net Debt as at 31

March 2016 is therefore lower than Net Equity, which amounts to 2.60 billion, leading to a Debt-to-Equity ratio lower than one. Quarterly results therefore provide reassuring feedback from the "check list": Hera's reaction to the new WACC levels proved to be successful; liberalised activities benefitted from both effective commercial efforts and attractive margins in trading activities; financial strength is ever more solid. These positive premises, on the other hand, prompt us to keep our guard up, in order to ensure healthy profitability also to the results of the coming months.

Tomaso Tommasi di Vignano

REVENUES' PERFORMANCE MAINLY REFLECTS THE DECREASE IN COMMODITY PRICES AND THE WACC CUT.





Q1 2016

(figures in million euro)

REVENUES

1,235.4 (-5.8%)

EBITDA

278.4 (+0.4%)

EBIT

170.8 (+0.4%)

NET OPERATING INVESTMENTS

68.5 (+10.1%)

NET FINANCIAL DEBT

2,505

Focus on Q1 2016 results

/// Despite the revenues' decline (-5.8%), due to external factors, in Q1 2016 Hera recorded an increase at EBITDA level, both in absolute value (+0.4%) and in terms of better EBITDA margin (22.5% vs. 21.1% in the same period of 2015).

/// Electricity and Gas have driven the improvement of consolidated EBITDA margin.

In Q1 2016, Hera consolidated Revenues amounted to 1,235.4 million euro, showing a 76.5 million euro decrease, driven by:

- lower volumes of gas sold because of milder temperatures;
- lower sales and trading of electricity and gas, as a result of the decrease in commodity prices;
- lower regulated revenues, due to the new levels of WACC.

EBITDA

m€	Q1 2015	Q1 2016	Change
Waste	64.9	62.4	-3.8%
Water	50.5	49.8	-1.3%
Gas	128.4	128.7	+0.2%
Electricity	29.3	33.2	+13.3%
Other	4.1	4.2	+4.5%
TOTAL	277.2	278.4	+0.4%

Consolidated revenues anyway benefitted from higher electricity volumes sold (+12 m€) and higher power generation at the thermoelectric plants, in addition to the contribution of higher treated waste.

Thanks to effective commercial effort and improved margins in Gas and Electricity, despite the Revenues' decline, EBITDA grew by 0.4%. EBIT achieved a similar increase. Net financial expenses continue to improve (-3.7 m€ in Q1 2016 vs. Q1 2015), thanks to lower average debt and to the optimisation of debt cost.

The tax rate (33.3% vs. 34.3% in Q1 2015) benefits from the application of the "patent box" for R&D activities as well as from the maxi-depreciation allowed by the 2016 Stability Law.

Net profit therefore reaches 96.8 m€ (+4.7%). Even more significant the growth of net profit post minorities (91.2 m€), equal to 5.3%.

Thanks to the healthy cash flow generation, despite the absorption of 68.5 m€ from capex, Net Financial Debt moves from 2,651.7 m€ as at 2015 YE down to 2,504.5 m€ as at 31 March 2016, also benefitting from a decline in receivables.

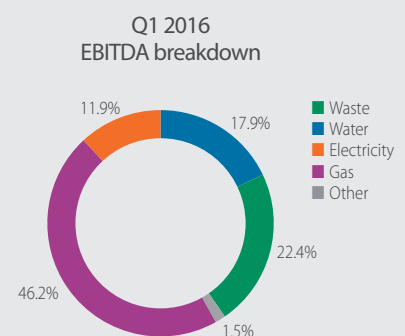
The growth rate of consolidated EBITDA (+0.4%) reflects differentiated performances, varying with the single business area. In Q1 2016, the **Electricity** business, whose EBITDA increased by 13.3%, achieved the strongest performance. Despite the negative impact from the application of Resolution 583 of 2 December 2015, which produced a 0.7 m€ decline in the revenues of distribution regulated activities, the Electricity area as a whole benefitted from a 6.7% increase in the number of clients and from a 6.2% growth in volumes sold.

Such results have been made possible by a successful commercial effort. Even the Gas area, increasing by 0.2%, provided a positive contribution to consolidated EBITDA. The Gas business was affected by two negative factors: the impact from the new regulation applied - which reduced regulated revenues by 3.9 million euro - and the decreased volumes sold (-7.4%), due

to mild temperatures and to lower trading volumes. On the other hand, the Gas area benefitted from the following two positives: a 0.9% increase in the number of clients and the margin increase in sales and trading activities.

The **Water** business slightly reduced its contribution (-1.3%), following the application of 2016 tariffs set by the Authority, which led to a 4.9 million euro reduction of revenues and EBITDA in that area, as a result of lower WACC; such decrease has only partially been offset by lower operating expenses. The EBITDA of the **Waste** business, which accounts for 22.4% of consolidated EBITDA, is down by 3.8%. Treated volumes (+5.8%) have been driven by the strong dynamics of market waste (+24.0%). Such increase reflects the contribution from the acquisition of **Waste Recycling** and the purchase of the **Geo Nova** assets, which have been completed in late

2015. In Q1 2016, Hera increased the use of WTE plants, while reduced the use of landfills (-17.9%). Waste operating costs rose (+23.1 m€) more than revenues (+20.7 m€), as a result of higher treated volumes and increased urban waste services.



2015 SUSTAINABILITY REPORT

Higher Added Value for shareholders

The growth path of Gross Overall Added Value continues, for the 13th year in a row. This indicator reflects the financial impact generated by Hera through the management of its activities, then distributed to the different stakeholder categories. In 2015 Hera has generated an Added Value of 1,412.8 million euro, increasing by 1.8% vs. 2014. A total of 147.9 million euro have been destined to shareholders: respectively 139.0 million euro in the form of dividends (+4.9% vs. 2014) and 13.9 million euro through earnings allocated to minority shareholders of subsidiaries.

The 2015 Sustainability Report has been drafted in accordance with the GRI-G4 guidelines, following in particular the disclosure framework provided for the Electric Utilities' sector. The Report complies with Global Reporting Initiative standards at the highest level of application (comprehensive option), fully meeting those requirements, as audited by DNV Italy, third party Assurance Company.



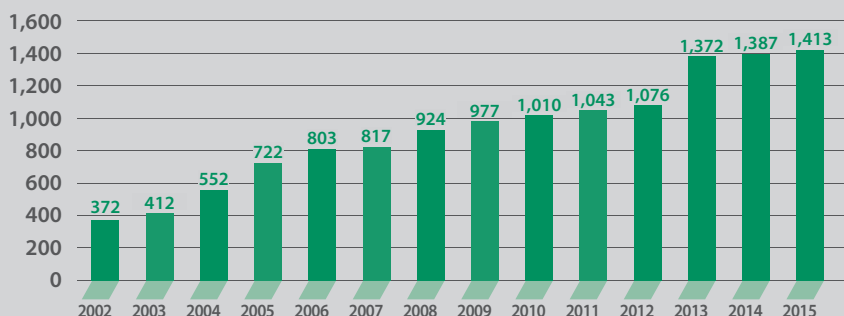
Stefano Venier, Hera's CEO, has commented: "Again this year the Sustainability Report presents very significant results in all the fields of the corporate responsibility, i.e. in the financial, social and environmental areas. Such achievements are the result of well-defined policies and commitments, also included in the Business Plan that we have released last January. Sustainability, which cuts across the growth strategies and combines with efficiency and innovation, has ever represented a priority to Hera, since Company's establishment, thus supporting its excellence path."

"In the field of environmental responsibility – the CEO continued – this year we are very proud to release

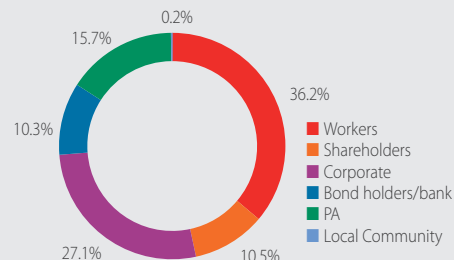
figures placing us among the best practices in Italy, and confirming that we have already exceeded the European medium-term targets.

In 2015, for instance, the separate waste collection has reached a weight of 55.4%, compared to a domestic average of 45.2%; that figures places us above the European 2025 target of 54%. Similarly, we improved our performance in the use of landfills for the disposal of urban waste, which in 2015 amounted to 8.6%, compared to the Italian average of 34%, while the European target has been set at 10% for 2030. Lastly, in the area that Hera serves, the packaging waste recycle resulted in being 66%: a percentage already exceeding the European target of 65% for 2025."

Gross Overall Added Value – million euro



2015 Added Value breakdown by stakeholder



10.5% of total Added Value generated in the FY 2015 is allocated to shareholders.

ANNUAL GENERAL MEETING RESOLUTIONS

Shareholders' attendance at the AGM continues to increase over time: this year, in person or by proxy, 480 shareholders (vs. 345 in 2015 and 275 in 2014) voted on the Financial Statements' approval. They represented 1,145,295,126 shares, corresponding to 76.89% of share capital (74.9% in 2015 and 73.6% in 2014).

• ORDINARY MEETING

1. 2015 Financial Statements and earnings' distribution approved

On 28 April 2016, at the Annual General Meeting, shareholders approved the FY 2015 Financial Statements, the 2015 Report on Corporate Governance and the 2015 Report on Compensation, the 2015 Sustainability Report as well as the BoD proposal to distribute a 0.09 euro dividend per share.

The dividend amount, unchanged vs. the previous fiscal year, is in line with the policy indicated in the Plan to 2019.

The dividend yield (annual dividend return calculated on the 2015 year-end price) is 3.7%.

The 2015 dividend will be payable from 22 June 2016.

2. Buyback plan authorisation renewed

At the Meeting, shareholders have also renewed the BoD's authorisation to purchase treasury shares and the conditions of their disposal, for a maximum of 180 million euro, over an 18 months' time period.

• EXTRAORDINARY MEETING

1. Amendment of article 4 of the Articles of Association

The amendment of the article 4 consists in adding an explicit statement, within the Company's purpose of Hera S.p.A., including the possibility of engaging in activities involving management and/or supply of integrated energy services. Such presence in the Company's purpose is necessary in order to obtain the UNI CEI 11352 certification, which today European companies need to have, in order to be qualified to carry out activities in the field of energy efficiency promotion.

HERA SHARE

Price as at 10 May 2016: **2.61 €**
 High-Low 365 dd: **2.15-2.66 €**
 No. outstanding shares: **1,489,538,745**
 Mkt. Cap.: **3.88 bn €**

Consensus target price **2.84 €**
 (source: broker research)

Hera's stock index membership

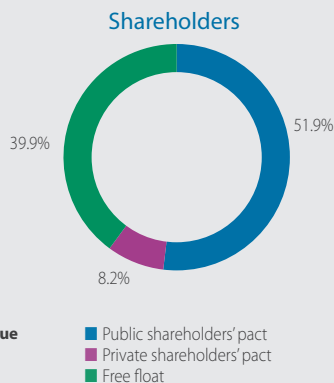
FTSE Italia | All-Share Capped + All-Share + Mid Cap + Servizi Pubblici

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 ECP | Italia SRI Benchmark + Italia SRI Leaders + Ethical Index EMU



Hera's stock price since beginning 2015



Hera vs. FTSE Italia All-share Index - Performance since beginning 2015



After the release of FY 2015 results (on 22 March 2016), the Hera share has continued the uptrend underway, reaching a new high at 2.658 on 24 March 2016. Later on, the share price showed a lateral oscillation, ranging from a low of 2.5 euro to the level of the previous high, thus increasingly outperforming the Italian Stock Market index. The uncertain and volatile market environment has been dominated by several factors: the downwards revisions of GDP growth estimates, the recapitalisation needs affecting banks – a sector strongly weighting on the Italian market index – because of non-performing loans, as well as the worries for the effects of a possible Brexit (exit of Great Britain from the European Union). In such an environment, Hera continues to represent a safe harbour: on one hand, for the limited risk profile of its businesses, and for the 0.09 euro dividend per share, payable from 22 June 2016; on the other hand, for the attractive and visible growth perspectives, confirmed in the Plan to 2019.

HERA RANKS SEVENTH AMONG EUROPEAN COMPANIES BY DIVIDEND TRACK RECORD

State Street, a leading provider of institutional investors services, has recently included Hera into a basket consisting of 40 European stocks, SPDR S&P Euro Dividend Aristocrats UCITZ ETF, which only includes shares with a history of more than ten years in terms of continuous distribution of flat or increasing dividends. Hera ranks seventh, being the sole Italian company in the top 10 list.

Additional information is available at the link:

<https://www.spdrseurope.com/product/fund.seam?ticker=SPYW%20GY>

ANALYST COVERAGE

Broker	target Price €	Rating
Banca Akros	2.80	Buy
Banca IMI	3.00	Buy
Equita	2.64	Hold
Fidentiis Equities	2.35	Sell
Goldman Sachs	3.10	Buy
ICBPI	3.03	Buy
Intermonte	3.00	Outperform
Kepler Cheuvreux	2.90	Buy
MainFirst	2.90	Outperform
Mediobanca	2.70	Outperform
10 brokers' average	2.84	

10 May 2016

The consensus target price slightly improved, compared to that presented in the last newsletter (22 March 2016), moving from 2.82 euro up to 2.84 euro. The picture of recommendations remains positively oriented, with eight buying suggestions (Buy/Outperform) and one neutral recommendation (Hold). The Buys reflect the current undervaluation of the Hera share, trading at a discount vs. the different target prices, which range from a low of 2.70 euro (Mediobanca) to a high of 3.00 euro (Goldman Sachs).

11 May 2016

BoD for the approval of Q1 2016 results

28 July 2016

BoD for the approval of H1 2016 results

9 November 2016

BoD for the approval of 9M 2016 results



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