

YEAR 12 The information contained in this newsletter is as at 11 January 2017

01



Message from the Executive Chairman of the Board

01

The 2016-2020 Plan leverages on a well-proven business model



Tomaso Tommasi di Vignano

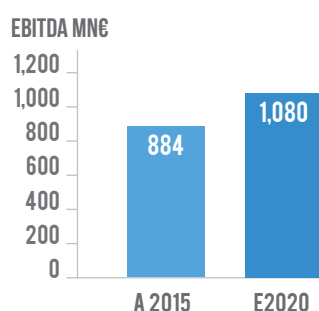
Dear Shareholders, The Business Plan that we present today maps out the growth route that Hera intends to pursue in the coming years, targeting 1,080 million euro EBITDA in 2020. The future path ensures full continuity with the past. Hera will employ a proven business model that combines the levers of organic growth and M&A. In this way, over the years, the Group has achieved a major expansion, both in terms of size and territories, and has gained strong market shares in all business areas, including the absolute leadership in waste treatment. Moreover, this model has generated healthy financials, effectively represented by the 9% CAGR of EpS over the last 13 years. At the same time Hera could maintain a low risk profile, through well-balanced exposure to liberalised businesses and proper diversification offered by the multi-utility portfolio. Such consolidated strategic approach, which proved to be rewarding in meeting the challenges coming from the external environment in recent years, will also allow Hera to face in a proactive way the fundamental discontinuity that will affect the sector. The market exit of operators that are less efficient and financially weaker will indeed pave the way to new opportunities for those who succeed in keeping themselves into game. The new Plan is based on a good starting point. In 2016, we estimate an EBITDA exceeding 905 million euro, despite the negative impact of approximately 40 million from the WACC cut and the expired incentives for renewables. The new 2020 EBITDA target, which is 50 million higher than the 2019 target included in the

previous Plan, indicates a growth of 196 million over the five-year period. Organic growth, which is expected to cumulatively provide a contribution of 118 million euro, will drive EBITDA through higher efficiencies, market and plant expansion, in addition to new synergies. Over the five-year period, therefore, this last growth factor would offset the penalisation due to the lower WACC and to the lack of incentives, whose estimated

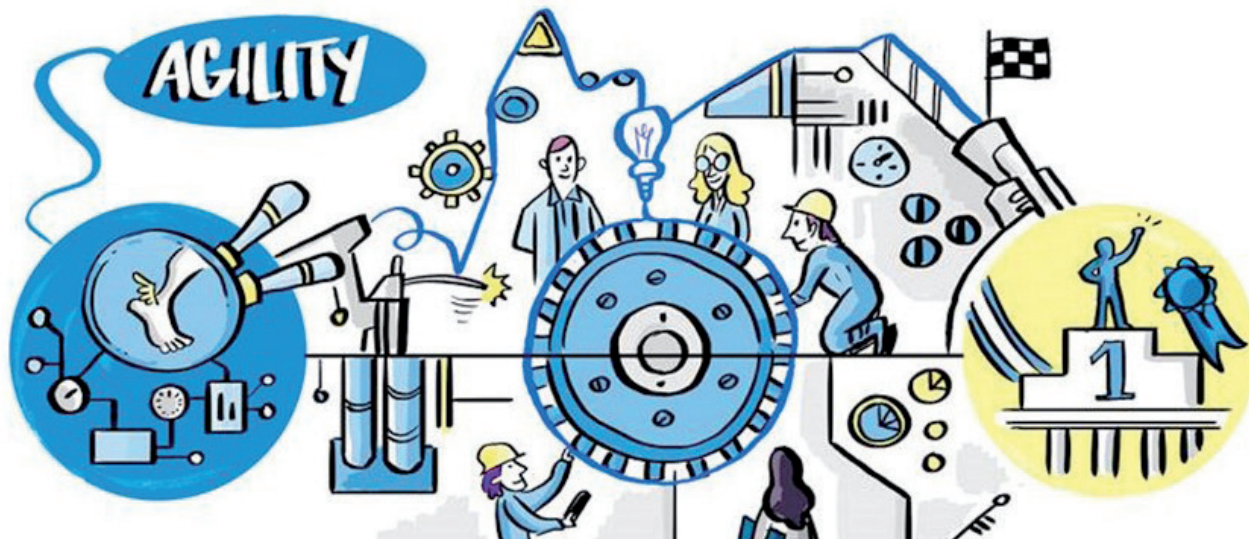
The target of a 200 million euro increase in EBITDA over the five-year period is highly visible. It leverages on three pillars – organic growth, gas tenders, and M&A

amount is 55 million. Moreover, we expect that the tenders for gas concessions will provide an incremental contribution to EBITDA, for approximately 27 million, under the assumption that we will win the tenders in 13 ATEMs out of 16 in which we operate in our reference territory, where we enjoy a market share above 70%. Lastly, we expect that external growth can drive the Group EBITDA to the extent of 106 million. Significant growth at operating profit level, combined with careful finance management, provides high visibility to the returns that Hera will be able to offer to shareholders.

EPS CAGR 2002-2015
ca. +9%



Hera will be able to catch the opportunities arising from the fundamental discontinuity in the sector in Italy thanks to strong cash generation and adequate financial flexibility.



BUSINESS PLAN
2016-2020

E2020
EBITDA (€MN)
1,080

2016-2020 CUMULATED
INVESTMENTS (€BN)
2.45

E2020
ROI
8.3%

E2020
ROE
8.0%

E2020 NET FIN.
DEBT/EBITDA
2.8X

Message
from the CEO

02

Hera's strategic choices and different projects developed to execute them meet the new issues arising from the market. Hera puts into play investments for 2.45 billion euro, carefully allocated on the basis of expected returns, with the aim of supporting the growth path

Focus on the targets of the 2016-2020 Business Plan



Stefano Venier

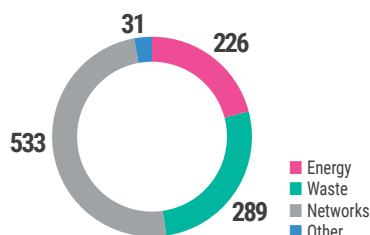
Beyond the quantitative perspective, Hera's Plan provides significant growth even from the qualitative viewpoint - this being an essential premise for solid and sustainable value creation in the long term. Hera's multi-utility proposition provides an effective response to new market demand for a single supplier providing the full range of services. Moreover, activities managed by Hera increasingly integrate new trends in terms of **Circular Economy, Industry 4.0 and Customer Experience**. While we continue to leverage **Growth and Efficiency**, in our strategy we have put a higher focus on three aspects, **Excellence, Innovation, and Agility** - the latter mainly seen as ability to manage discontinuity and change. The 2016-2020 Business Plan indicates that all business areas will provide positive contribution to the growth of 196 million euro targeted at

EBITDA (€MN)	A 2015	E 2020	CHANGE
NETWORKS	428	533	+105
WASTE	230	289	+59
ENERGY	205	226	+22
OTHER	21	31	+10
TOTAL	884	1,080	+196

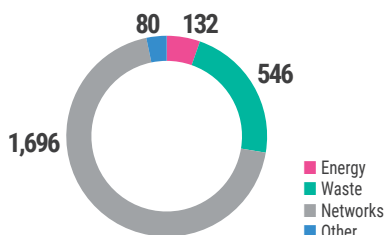
consolidated EBITDA. More than half of Group's growth - i.e. 105 million out of 196 as a whole - is expected to come from the **Networks'** area, whose performance is based on a well-defined tariff system that protects it from changes in both inflation and volumes. In the **Waste** area, we expect to reach a growth of 59 million euro, mainly resulting from the plants' portfolio on which today Hera can rely. Lastly, in **Energy**, the 22 million euro growth is expected to derive from additional increases in market shares and from a typically flexible procurement. Over the 2016-2020 five-year

period, cumulatively, Hera has planned to invest **2.45 billion euro**. Thanks to these resources, the Company will fuel growth by participating to the tenders for gas concessions and by investing in both maintenance and development of the most relevant assets in its plant portfolio. The 76% of overall investments will be focused on regulated activities, with predictable returns. Thanks to the thorough allocation and high concentration over time of planned investments, we expect to retain a sound level of return on invested capital, with a **ROI** amounting to **8.3% in 2020**.

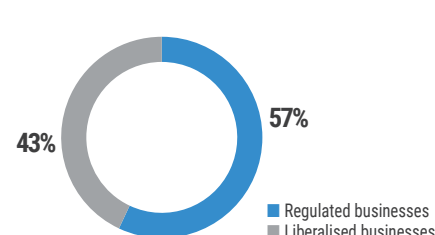
EBITDA E2020
(1,080 €MN)



2016-2020
CAPEX (2.45 €BN)



EBITDA E2020
(1,080 €MN)



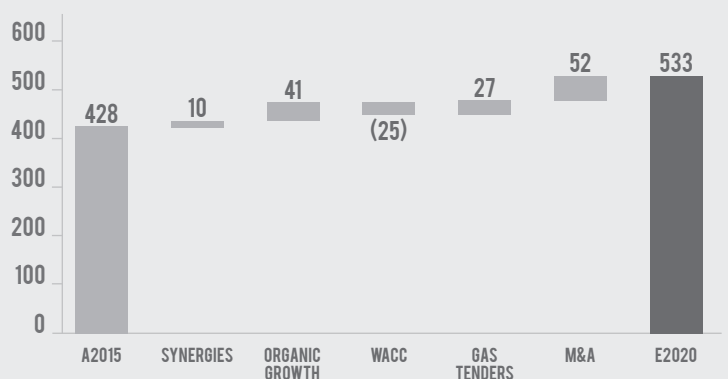
BUSINESS STRATEGIES

NETWORKS

The 2016-2020 Plan indicates that Networks will provide the most sizeable contribution to consolidated EBITDA, with a 105 million euro increase over the period; in 2020, Networks will therefore weight more than 49% on Group EBITDA.

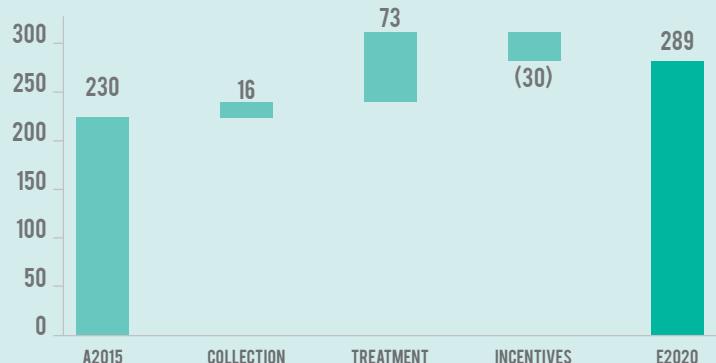
Hera will mainly invest in a growing digitalisation of infrastructure with the aim of improving its sustainability and returns, through the decrease of operating costs and the optimisation of dedicated resources. The continuous quest for value creation through the application of evolved technologies has some representative examples in smart metering, artificial intelligence in data analysis and crisis prevention, as well as in the use of drones and satellites for the remote control of networks. EBITDA growth drivers will therefore be the extraction of efficiencies and operating synergies, in the Water business the achievement of performance levels that will result in being financially rewarding and the optimisation of the District Heating assets.

EBITDA GROWTH DRIVERS IN THE NETWORKS' AREA (€MN)



WASTE

EBITDA GROWTH DRIVERS IN THE WASTE AREA (€MN)



Hera's leadership in the Waste sector is based on a unique plant portfolio, which in the 2015/2016 two-year period has been significantly strengthened by the acquisition of Geo Nova, Waste Recycling and, lastly, Aliplast, a leading Italian Company in the segment of recycling and regeneration of industrial plastic waste. Being already a supporting protagonist of Circular Economy, Hera aims at reducing the rate of landfilling to 6% in 2020, compared to 9% reached in 2015 (a level already fully compliant with the 2030 UE target). In the five-year period covered by the Plan, the Waste business is forecast to show the highest cumulated growth at EBITDA (+25.6% vs. 22.2%, which represents the consolidated average data).

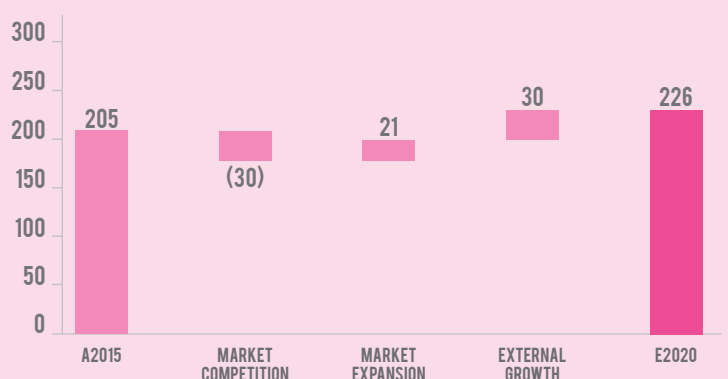
ENERGY

In a market environment that is expected to generate additional pressure on margins, over the 2016-2020 period Hera forecasts to achieve a cumulated EBITDA increase of 22 million euro (+ca.10%) in the Energy area (Gas and Electricity).

The Group will leverage on further marketing efforts in order to reach a customer basis of 2.4 million people (+200k in the five-year period), with an acceleration in the retail segment of the electricity business.

With the aim of enhancing the effectiveness of marketing initiatives, Hera will invest in the evolution of its CRM system in order to make the Customer Experience even more satisfactory. The use of smart technologies will allow to exploit "soft" information collected in day-by-day interactions with customers as quickly as possible.

EBITDA GROWTH DRIVERS IN THE ENERGY AREA (€MN)



Finance strategy and shareholder returns

The strong cash flow generation expected allows Hera to forecast that it will **fully fund the 2.45 million euro investment plan**.

Financial strength already achieved by the Group should further improve, leading the targeted **Debt/EBITDA ratio to 2.8x in 2020**.

Considering that the average duration of Hera's debt at present is 9 years and that most of the stock consists of listed bonds, a solid financial structure is a sound basis for continuing to benefit from good agencies' ratings and, therefore, for placing new issues and closing successful liability management operations.

This virtuous circle will favour further decrease in **debt cost**, from the current level of 3.7%, down to **3.5% in 2020**.

In addition to improving operating results and to financial optimisation, Hera will also use the lever of **higher fiscal efficiency**. Tax rate is expected to decrease, from an estimated level of 36.5% for 2016, down to 33.0% in 2020, mainly as a consequence of the IRES (corporate

tax) cut, as envisaged in the Government Stability Law starting from 2017.

All these factors, taken together, will generate substantial benefits at bottom line, as proven by the **52% growth** expected from the adjusted **2014 EpS** and the **2020 EpS**, which has been calculated considering a fully dilutive impact from the mergers included in the five-year period.

The **2020 ROE** would therefore amount to **approximately 8%**. The financials in the Plan's period will provide continuity to **the long-standing shareholder remuneration policy**, characterised by **visibility** and **regularity**.

On the one hand, Hera intends to ensure the shareholder remuneration through a **growing dividend**, which is also **sustainable over time**.

On the other hand, the Company also intends to maintain the **financial flexibility** that will allow, at the right time, for the availability of resources needed to acquire targets envisaging high returns.

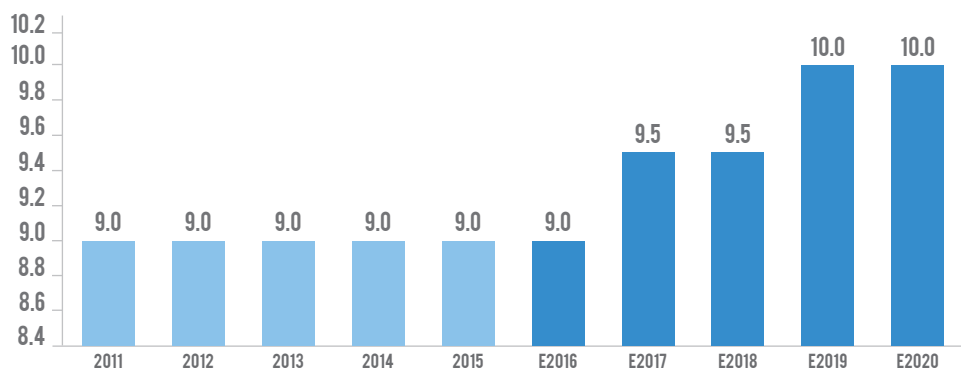
Lastly, it should be taken into



Hera has different options to balance shareholder remuneration with the possibility of funding growth opportunities

account that shareholders may enjoy further remuneration by using **treasury shares** to even partially fund mergers, with the effect of limiting their dilutive impact. Hera's Shareholders Meeting has approved the buyback programme of 60 million shares, corresponding to 4.0% of the current share capital. If well-executed, this strategy can produce an increase in share prices, in order to **maximise Total Shareholder Return**, i.e. the overall return generated by the sum of Dividend Yield and Capital Gain.

DIVIDEND PER SHARE (€)



The 2016-2020 Business Plan envisages an increasingly growing Dividend per Share, starting from 9 euro cents in FY2016, up to 10 euro cents in FY2019-FY2020



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