



**01** Message from the Executive Chairman of the Board

## Hera will invest over 2.2 billion euro in the five-year period to exceed 1 billion euro EBITDA in 2019



Dear Shareholders,  
The Business Plan approved today by the Board of Directors confirms our vocation to growth, following up the path of uninterrupted development along the Hera's 12 year story, effectively represented by the performance of EBITDA, which in 2014 was 4 times the 2002 level. Moreover, the new Plan is consistent with the limited risk profile that has always characterised our business model. Targets to 2019 present great visibility; the strategic structure lays on two solid pillars – organic growth, wisely combined with the growth stemming from M&A deals – that have proven to succeed in generating healthy results in the Hera's P&L.

Such consistency to a well-proven "two pillar" growth model make us feel confident to exceed 1 billion euro in the 2019 EBITDA, despite the complex scenario that we will have to face in the five-year period. On one hand, the regulatory framework turned to be increasingly challenging, following the Authority resolution that in December 2015 has reduced the WACC level for the utilities; on the other hand, the tender procedures for awarding regulated services will increase competitive pressure, leading higher consolidation in the Local Utilities' system. All this will take place in an economic environment that in Italy is showing slight signs

*The equation of Hera's growth implies that we will continue to create value and maintain proper shareholder remuneration, with a floor of 0.09 euro dividend in the coming fiscal years*

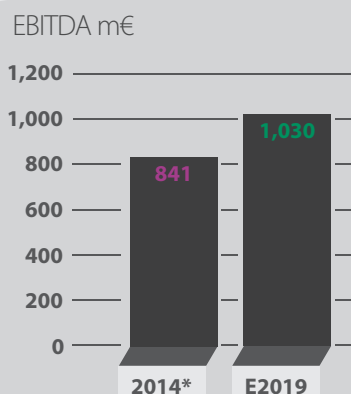
of a recovery. In light of such a scenario, the 189 million euro increase expected at the EBITDA level in the 2015-2019 period is even more appreciable. That estimated growth, reflecting the benefits of the solid competitive position that Hera has reached, will be also the result of new resources fuelling development, i.e. over 2.2 billion euro that we cumulatively plan to invest over the five-year period.

Reinvesting cash flow in the areas in which we have solid competitive advantages will provide us with further strength and visible cash generation even in coming years, creating a virtuous circle that will allow us to fully fund new investments. We have achieved noteworthy financial strength, with a Net Debt-to-EBITDA ratio that, already at 2014 year-end was 3.04x, and possibly dropping to 2.9x at 2019 year-end, once funded 2.2 billion investments planned. That allows us to rely on a high financial flexibility in case of further M&A

opportunities, not included in the current Plan, which might occur along the way. Lastly, the equation of Hera's growth also includes proper shareholder remuneration, since we expect to achieve new Plan's targets while maintaining a floor of 9 euro cents in terms of DPS, in line with the policy pursued in the last four years.

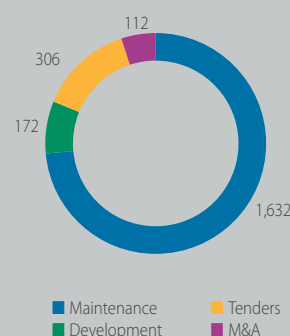
**Tomaso Tommasi di Vignano**

**WE WILL SUCCEED IN FURTHER STRENGTHENING OUR MARKET POSITION BY CONTINUING TO INVEST IN AREAS IN WHICH WE ALREADY HAVE STRONG COMPETITIVE ADVANTAGES**

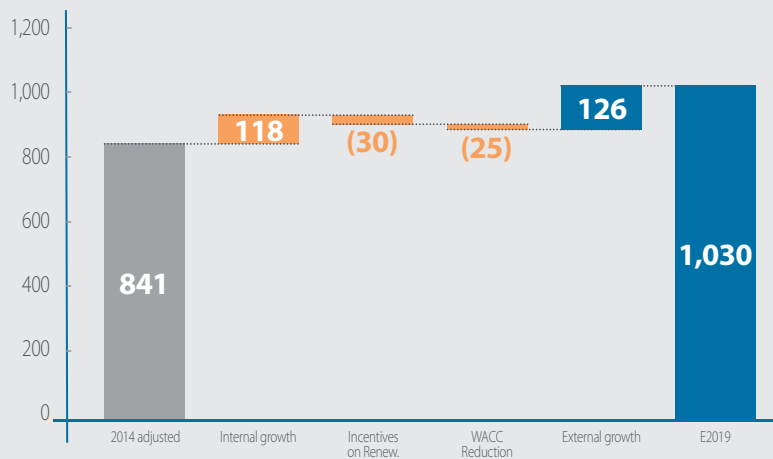


\*Adjusted for one-off items (+27 m€)

2015-2019 CUMULATIVE INVESTMENTS (2,222 m€ - data in m€)



## EBITDA: "TWO PILLAR" GROWTH MODEL (data in m€)



## 2015-2019 BUSINESS PLAN

VALUE OF PRODUCTION E2019  
5.8 b€ (4.7 b€ in 2014)

EBITDA E2019  
1,030 m€ (868 m€ in 2014, 841 m€ adjusted EBITDA in 2014)

CUMULATIVE INVESTMENTS E2015-2019  
2,222 m€

NFP/EBITDA E2019  
2.9x (3.04x in 2014)

## Focus on 2015-2019 Business Plan

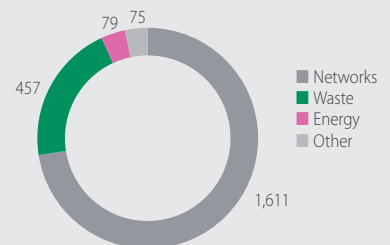
At Hera we are aware that the effectiveness of the planning process is key to success of the Business Plan; this is the reason why we have invested attention and resources in building well-structured and credible targets. The Hera's Business Plan takes off from a starting point of 841 million euro 2014 EBITDA, adjusted for 27 million euro of one-off items. The increase from 841 to 1,030 million euro, which we expect to achieve in the five-year period, derives from two factors. The **internal growth**, expected to provide an additional contribution of 118 million euro (out of which 72 million euro from new efficiencies and cost control, 25 million euro from top line growth due to market expansion and asset base development, and 21 million euro from synergies that we plan to extract from the integration of past acquisitions). To that amount, 30 million euro of lower incentives (due to expiration of Green Certificates) have to be subtracted, as well as the negative impact of 25 million euro resulting from the regulatory WACC review. The second

driver is represented by the **external growth**, which we expect to add 126 million euro as a whole, out of which 14 million from the tenders for gas concessions. Such estimate is based on the assumption that Hera can be awarded with the new concessions in its reference territories, since the tenders will favour utilities with high efficiency standards and satisfactory quality of customer service. In addition to the gas tenders, the growth through external lines will focus on the opportunities of aggregating multi-utilities operating in the neighbourhood (11 targeted companies) or on the acquisition of companies operating in liberalised businesses, spread all over Italy.

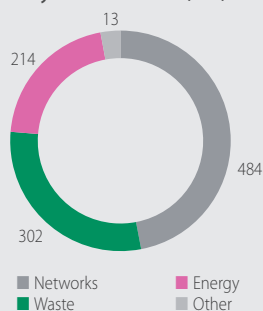
Therefore, we can rely on a carefully assessed set of growth drivers. Over time, we have also proven to be able to put those drivers into play successfully, partly thanks to the specific way in which we pursue our objectives: the projects translating strategic guidelines into reality are inspired by continuous quest for **excellence** and share a strong push for **innovation**. Moreover, **sustainability**, which has ever

been an integral part of the Plan, takes into consideration the impacts of different choices from the economic, social and environmental viewpoint; this lead us to achieve "good" results in the interest of all our stakeholders, in a long-term rationale. High visibility of expected returns also derives from decisions made in terms of **investment allocation**. From a business perspective, 78% of investments planned focus on regulated activities (Networks and Waste Collection), whose returns are set by a well-defined tariff system.

## 2015-2019 INVESTMENTS by Area (m€)



## EBITDA E2019 by Business area (m€)



All the areas in the current Hera's business portfolio are expected to provide a positive contribution to the 189 million euro EBITDA increase in the Plan period. That should allow us to keep

the ratio "regulated activities-to-liberalised activities" substantially unchanged (55%-45% in 2019, vs. 53%-47% in 2014) and confirm the strong Hera's competitive position over time. The increase in the **Networks'** EBITDA (+94 million euro in the 2015-019 period) will leverage the opportunities provided by the gas tenders and will aim to the quest for new efficiencies in order to counterbalance the reduction in the WACC set by the Authority.

The **Waste** business of the Hera Group, which counts on a well-developed and geographically diversified asset base, will benefit from

the upturn in prices and volumes expected in the special waste treatment market, while the Italian GDP is recovering, so generating an overall increase of 60 million euro in EBITDA over the Plan's period.

In the **Energy** area, in the five-year period, a 26 million euro improvement is expected at EBITDA level, driven by the expansion in the electricity market, which could benefit from higher focus on the residential segment, where Hera targets to exceed 2.3 million clients in 2019. A positive contribution (+9 million euro) is expected also from **Other Activities**, public lighting and optical fibres,

owing to the energy efficiency programmes approved by several public clients. The strategy behind the Plan is therefore very clear and consistent: it is up to us to turn it into concrete reality by a careful and committed work, every day.

**Stefano Venier**

