

04



01

Sound interim results enhance the visibility of FY earnings



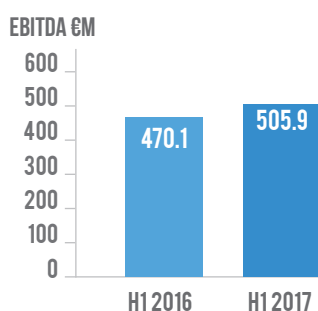
**Tomaso
Tommasi di Vignano**

Dear Shareholders,
In first-half 2017 Hera posted strong results, which provide continuity to the route already covered in Q1, even though in Q2 the contribution from volumes of gas sold had lower impact, due to the concentration of consumptions in winter months. While on the one hand the impact of the safeguard clients in the electricity business, awarded at the end of 2016, confirms to be positive, on the other hand, the Waste business proves our successful competitive approach, given the increases achieved in both prices and volumes in liberalised market segments. Moreover, in the Waste business, the Interim Report benefits from the whole consolidation, effective from 1st January 2017, of the newly-acquired Aliplast, a fundamental Company for Group's activities, which are based on circular economy principles. Therefore, typical components of Hera's development model drove the 35.8 million euro increase in EBITDA: organic growth (+33.4 €m) and M&A (+8.6 €m). The overall change also discounts a negative component, represented by

the absence of CIP6 incentives on the Isernia WTE. While the continuity of positives can count on strong premises, the unfavourable comparison with the past will disappear in the second half of the current fiscal year, since incentives expired in April 2016.

Given the amount of H1 2017 EPS, YE targets look achievable

When analysing the pattern of the last five fiscal years, we see that H1 EPS has consistently represented 58 to 65% of yearly EPS. Having already reached an EPS of 9.6 cents on a half-yearly basis, Hera can expect to succeed in remunerating shareholders through an increased dividend of 9.5 cents, as stated in the corporate dividend policy, as well as to continue to fund future growth while maintaining a well-balanced gearing.



The EBITDA increase was mainly driven by organic components



H1 2017
(data in €m)

REVENUES
2,754.0
(+10.0%)

EBITDA
505.9 (+7.6%)

EBIT
262.2 (+1.9%)

OPERATING
INVESTMENTS
170.1 (+8.2%)

NET FINANCIAL
DEBT
2,611.7 (+2.1%)

Message
from the CEO

02

Focus on H1 2017 results



Stefano Venier

Convincing earnings growth from both quantitative and qualitative viewpoint

H1 2017 results provide a reassuring picture in many respects:

- They confirm the effectiveness of our business model, which combines two levers: organic growth and M&A;
- Moreover, they demonstrate, on top of the positive contribution from operations, the significant role of results from both financial and fiscal management, which allow for higher operating and financial flexibility;
- Lastly, they prove that projects launched with a view to Shared Value are delivering in the desired direction, influencing at least one third of the overall EBITDA.

The growth of 251.2 €m achieved in consolidated Revenues (+10.0%) benefits from the contribution of more than 60 €m coming from recent acquisitions: Gran Sasso (6.4 €m), but mostly Aliplast (54 €m), the Italian leading company in plastic recycling that entered the scope of consolidation, effective as from 1st January 2017. From the organic growth perspective, Hera's Revenues were mainly led by Trading activities (128 €m), by the price increase of the electric raw material (70 m€), and by higher volumes sold in the Gas business (28 €m). The EBITDA growth of 35.8 €m (+7.6%) reflects the stronger contribution coming from the Energy areas (+33.7 m€), thanks to the expansion in the number of customers (+122,000) and to the healthy margins achieved on sales of the new lots awarded in the segment of safeguard clients in the electricity business and default gas.

Also the Waste liberalised business played a positive role (+4.9 €m), leveraging the Aliplast consolidation, the increase in both prices and volumes, as well as the recovered availability of a relevant landfill. Those factors allowed Hera to offset the impact of the expired CIP6 incentives for the Isernia WTE (-6.2 €m) and the effect of the stop at the WTE plants of Padua and Ferrara (-4.9 €m), which in the meantime turned into operations again. Lastly, concerning the Networks area, the 4 €m decrease in EBITDA reflects the new method for investment accounting in the electric energy sector, introduced in June 2016: an effect that is expected to disappear at the end of the

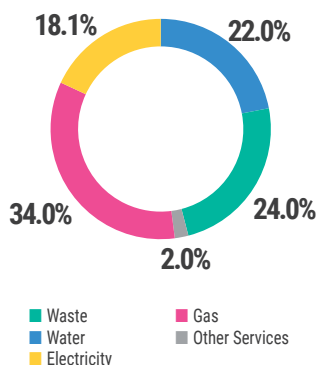
fiscal year. Anyhow, the Networks EBITDA also discounts the positive contribution of the Water business, which incorporates the premium recognised to Hera for quality of service provided and different actions to gain new efficiencies. EBIT growth (+1.9%) absorbs the 14.6% increase in Depreciations and Provisions. Net financial charges decrease by 20.9% vs. H1 2016, due to effective control of debt stock, to liability management activities aimed at cost optimisation, and to interest recovery on active credits. The area of fiscal management benefitted from the opportunities provided by legislation. Tax rate fell from 35.7% in H1 2016 down to 31.6%, as a consequence of a cut of 3.5 percentage points in the IRES corporate tax rate and given the fiscal optimisation coming from R&D tax credit, extra amortisation deduction, and patent box.

Net profit after Minorities in H1 2017 therefore reached 141.0 €m, with a 16.5% increase.

Strong cash flow generation made it possible to fund most acquisitions closed in the period, especially Aliplast, and the whole dividend payment, while keeping net financial debt in line with year-end levels.

Net financial debt as of 30 June 2017 amounted to 2,611.7 €m, with a marginal increase (52.8 €m) over the level at 2016 YE. Strong cash flow generation from operations (358.1 €m) allowed Hera to fund 150.8 €m for Net operating investments and the cash-out of 108.6 €m for M&A transactions (Aliplast and Teseco), reaching a Free Cash Flow available for shareholder remuneration of 87.7 €m, with dividends amounting to 140.4 €m.

H1 2017
EBITDA Breakdown



EBITDA (€M)	H1 2016	H1 2017	CHANGE
WASTE	116.5	121.3	+4.1%
WATER	106.6	111.3	+4.4%
GAS	165.2	171.8	+4.0%
ELECTRICITY	73.1	91.6	+25.2%
OTHER	8.7	9.9	+14.0%
TOTAL	470.1	505.9	+7.6%

Waste: new projects in China will exploit the excellence of Hera's know-how

Hera is participating to the design and construction of a new waste disposal plant located in Yuyao, Chinese province of Ningbo, through HEPT Co. Ltd., a joint venture with a local partner. In addition, the project of a new plant to be built in Taihu – East China – obtained final approval.

Mr. Roberto Barilli - Hera COO - signed the Cooperation Agreement for the **Yuyao project** last February, during the fourth Italy-China Business Forum (ICBF), while start of work has been recently authorised. Going into detail, the project includes an industrial hazardous waste treatment and disposal plant and a chemical waste landfill for an overall capacity of 1.5 million tons.

HEPT will be the Owner Engineer of the site and will be responsible for the core of assets, including two lines for 30,000 tons/year each, the 30,000 tons/year chemical-physical pre-treatment unit, the automation system, and the energy recovery unit.

Yuyao plant will not be the only project deploying Hera's competence in China. Hera has recently achieved the final approval for the **Taihu project** along with agreements for four additional possible projects, with both greenfield and revamping profiles.

Taihu project will include a first 30,000 tons/year HWTP line, a second twin line, a 60,000 tons/year chemical-physical plant, and a 30,000 tons/year industrial lime treatment line. Both Yuyao and Taihu projects have their "first firing" planned in 2018 and completion by 2019.



Chinese partners, who aim to address by means of the new investments the heavy pollution issue affecting many areas of the country, chose Hera on the back of its excellent environmental performance in the WTE network it operates in Italy

Sustainability: Hera invited to present the "Change the ending" project at the CSR Europe Conference in Brussels

In late May, Hera participated with the project "Change the ending" to the Conference on the UN 2030 Agenda for Sustainable Development Goals, organised by CSR Europe at the European Business Summit.

Showcase of best practices in circular economy were among the Conference objectives. Filippo Bocchi, Chief CSR Officer, and Gianluca Principato, in charge of Sustainability Reporting, presented the Hera's project that calls for restore and re-circulation of still usable bulky goods, with the aim to favour a virtuous and supportive reuse circuit, able to get resources from waste. Hera, in cooperation with Last Minute Market - a start-up established within the Bologna University to promote environmental sustainability and fight against wastage - collected furniture,

household appliance, toys and books on behalf of 20 different non-profit organisations.

"Change the ending" was selected for being presented at the Brussels Conference among other similar projects thanks to specific strengths that characterise it as a shared value project at full right:

- Innovativeness;
- Multi-stakeholder partnerships that the project can activate, by joining non-profit organisations, public administration and enterprises;
- Positive financial return for both Hera and stakeholders, along with substantial environmental benefits.



2016 NUMBERS FOR "CHANGE THE ENDING" PROJECT

COLLECTED PARTS	98,991
PICKS	6,324
TONS COLLECTED	751
TONS REUSED	532

The importance of the initiative also derives from the principles that guide it, i.e. an industrial paradigm of circular economy that is "regenerative starting from the project itself".

Such principles aim to replace disposal or recycling of products at the end of their life with their restoring, repair and reuse.

Hera Share

Price as at 25 July 2017: **2.76 €**

High-Low 365 dd: **2.98-1.88 €**

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

Mkt. Cap: **4.11 bn €**

Consensus target price **2.99 €**

(source: broker research)

Hera's stock index membership

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

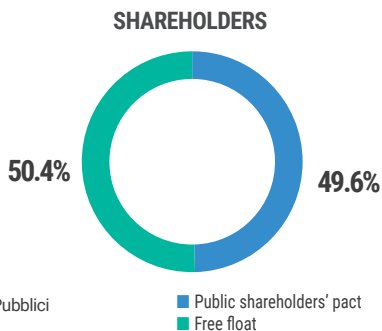
STOXX | Total Market Index+Europe+Europe ex-UK+Italy

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 beginning 2017, Hera **has strongly outperformed** the Italian stock market index. The uptrend started in February 2017 led the price to reach the **high of 2.98 euro** on 16 June 2017, 30% above its level at the beginning of the year. The **strong performance of Hera's shares**, while on the one hand reflected Company's healthy fundamentals, on the other hand incorporated the benefits of a **more favourable scenario**, due to improved expectations on **GDP growth** and to the perception of **lower political risk**, following the Dutch and French elections that gave new strengths to Europeanist components. Recently, especially in the **Italian context**, both the disappeared concerns about political elections in autumn and the rescue of Veneto-based banks had a beneficial role.

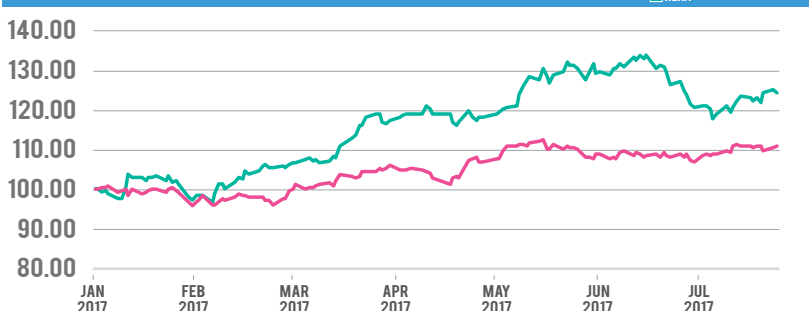
In June 2017, the utility sector suffered from the increased yield in Eurozone's sovereign bonds, due to expectations for a tapering of the ECB's quantitative easing. Despite the unfavourable sectoral context, even in the last few weeks Hera's stock proved its strength, in particular when considering that in the meantime (on 23 June) the Accelerated Book Building of 1.7% of share capital took place. Through this transaction, 13 Municipalities that are Hera's shareholders sold part of their shares to institutional investors at a price of 2.79 euro. The demand, which was twice as high as offer, made it possible to limit to 3.3% the discount over the closing price of the previous day.

Today Hera boasts an improved liquidity profile, as free float has reached 50.4%

HERA'S STOCK PRICE SINCE BEGINNING 2017



HERA VS. FTSE ITALIA ALL-SHARE INDEX SINCE BEGINNING 2017



ANALYST COVERAGE

BROKER	TARGET PRICE €	RATING
BANCA AKROS	2.80	BUY
BANCA IMI	3.30	BUY
EQUITA	2.95	HOLD
INTERMONTE	3.10	OUTPERFORM
KEPLER CHEUVREUX	3.10	BUY
MAINFIRST	2.76	NEUTRAL
MEDIOBANCA	2.90	OUTPERFORM
7 BROKERS' AVERAGE	2.99	

25 July 2017

Following the release of Q1 2017 results, some analysts reviewed their earnings estimates and valuations; as a result, consensus target price rose from 2.84 to 2.99 euro. Three analysts now have their target price ranging from 3.10 to 3.30 euro. **Recommendations** remained unchanged. They are **mostly Buy or Outperform** ratings, based on the potential revaluation room that brokers indicate for the Hera's stock price.

CONTACTS

Head of Investor Relations

Jens K. Hansen

T.+39 051 287737 - jens.hansen@gruppohera.it

HeraNews

Managed by: Jens K. Hansen

Concept and editorial contents: Blue Arrow, Milan

Graphics: moma Studio, Milan

