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Sound 9M 2016 results enhance Hera's competitive advantages

Dear Shareholders, Results achieved in nine-month 2016 prove that the well-balanced structure of Hera's business portfolio, managed according to consistent strategic guidelines, has led the Company to address and overcome the difficulties arising from the external scenario. Revenues have been constrained by the changes in the regulatory framework and from the negative impact of the energy commodity decrease. The expiring incentives on the production of renewable energy have also played a negative role. Moreover, in liberalised businesses, we have operated in an environment characterised by increasing competitive pressure. Nevertheless, our business model has proven that Hera's sales margins have limited exposure to the fluctuations of energy prices, in both gas and electric energy. That allowed consolidated EBITDA to show a 1.6% increase over the nine-month 2015 figure. The organic growth component – amounting to 39.5 million euro – has almost entirely counterbalanced the factors linked to the unfavourable environment. On the other hand, the incremental contribution of around 11 million euro deriving from the newly acquired assets - Waste Recycling, Geo Nova and Julia Servizi Più, in addition to Gran Sasso – has paved the way to the 10.4 million euro increase of consolidated EBITDA, compared to nine-month 2015.

Financial strength and recurring cash flow generation allow Hera to play a key role in the coming tenders in the gas business.

Improvements achieved through careful management of working capital, finance, and taxation have led Hera to increase EBIT by 3.8%, Pre-Tax Profit by 9.5%, and Net Profit Post-Minorities by 13.8%.

At the beginning of October, Hera placed with high-profile institutions a 400 million euro bond issue with 10-year maturity, at a 0.875% rate, i.e. lower than that of a BTP (Italian Treasury Bond) with the same maturity. The results of the placement provide an effective picture of the perception that our Company enjoys, in terms of both limited risk profile and of robust financial solidity, within a clear strategic framework that makes perspectives visible.

The sizeable cash flow generation, which is continuing every quarter, places us in the best financial conditions, given the coming acceleration of M&A activities. Moreover, since Hera's shares trade at multiples that imply a premium versus the average of comparable companies, the likelihood of making acquisitions at non-dilutive conditions for current shareholders is very high.

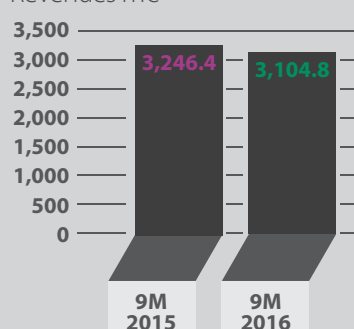
The approval process of the Madia Law is entering the final straight; while making the legislative framework clear and binding, it will boost sector consolidation. At Hera, we are ready to seize the opportunities provided by the tenders for gas concessions, which we expect to be a number in Q1 2017. We will put into play substantial financial resources, with the aim of funding capex projects that will make our bids attractive. In that spirit, we now prepare to close the accounts for the 2016 Fiscal Year and to review our Business Plan, which we aim to present early next year.

Tomaso Tommasi di Vignano

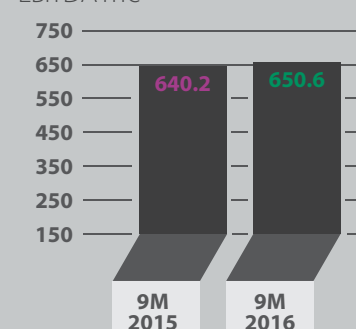


THE 13.8% GROWTH OF NET PROFIT, ACHIEVED IN AN UNFAVOURABLE EXTERNAL ENVIRONMENT, PROVES THE EFFECTIVENESS OF HERA'S STRATEGIC APPROACH.

Revenues m€



EBITDA m€




9M 2016 EBITDA in the Electricity business: +43.4%

2016 NINE-MONTH RESULTS

(figures in million euro)

REVENUES
3,104.8 (-4.4%)
EBITDA
650.6 (+1.6%)
EBIT
329.2 (+3.8%)
OPERATING INVESTMENTS
251.5 (+9.6%)
NET FINANCIAL DEBT
2,567.0

Focus on 2016 nine-month results

/// While the 4.4% decline in Revenues reflects the unavoidable impacts of external environment, both EBITDA and EBIT improve, respectively by 1.6% and 3.8%, driven by strongly increasing margins in Electricity

/// Net profits achieves a 13.8% rise, also benefitting from an active financial management

/// Strong cash flow generation continues, driving the 84.7 million euro decrease vs. the level at 2015 YE

2016 nine-month Revenues of the Hera Group reached 3,104 €m. The 4.4% decline compared to the same period of 2015 is largely due to lower revenues from sales and trading of electric energy and gas (-180 €m), as a results of a substantial fall in commodity prices. Furthermore, the reduction in regulatory returns, mainly linked to the WACC cut, generated a 25.6

million euro drop in revenues of regulated businesses.

On the contrary, among the revenue components on the rise, it is remarkable the 48 €m increase in Waste revenues, thanks to higher treated volumes.

EBITDA, which increases by 1.6% vs. the 2015 nine-month figure, amounts to 650.6 €m, being mainly driven by the performance of the Electricity area. The rise of EBIT (+3.8%) is higher than that of EBITDA, due to the 0.5% decline in Depreciation and Provisions. The Consolidated P&L Account moreover presents an improving Result from Financial Management (-8.7%), thanks to the combined effect of lower average debt and active financial management, which has favoured a decrease in the cost of debt. Pre-Tax Profit therefore jumps by 9.5%.

Tax rate drops, from 38.2% in the first nine months of 2015 down to 36.5%, as a result of the "patent box", of the tax credit for R&D activities, and of tax breaks.

Net Profit Post Minorities is therefore 142.2 €m, a 13.8% improvement vs. the 2015 nine-month figure.

EBITDA
€ mn

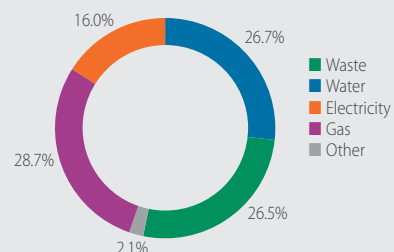
	9M 2015	9M 2016	Change
Waste	172.5	172.2	-0.2%
Water	174.7	173.7	-0.6%
Gas	205.6	186.5	-9.3%
Electricity	72.7	104.3	+43.4%
Other	14.8	13.9	-6.2%
TOTAL	640.2	650.6	+1.6%

The increase in consolidated EBITDA (+1.6%) represents the average of different performances across business areas. The EBITDA of **Electricity** (+43.4%) recorded the strongest dynamics; despite the WACC reduction (resolution 583/2015) and the 27.6% decrease in PUN (price of electric energy), this area benefitted from the 2.3% increase in the number of clients. It also enjoyed higher margins in both the sales activity and the production of electric energy, thanks to the healthy performance of dispatching services. The **Waste** EBITDA shows a slight decline (-0.2%); the 9.0% increase in marketed waste was driven by the 18.4% growth in commercial waste, made possible by the acquisitions of Waste Recycling and of the Geo Nova assets, which have been completed

at the end of 2015. The impact of the newly-consolidated companies is substantial even in the performance of treated volumes, which rise by 9.0%: the 16.3% decrease in volumes sent to landfills was counterbalanced by the 23.3% increase in the volumes of waste managed in the selections plants. The 9.3% decrease in the EBITDA of the **Gas** area reflects the reduction in regulated returns (with a negative impact of 8.5 €m on regulated revenues) and the lower trading marginality. Overall sold volumes grew by 10.5%, mainly driven by the trading component. Mitigation of negatives was provided by the 1.8% increase recorded in the number of clients, also through the acquisition of Julia Servizi Più. Lastly, the slight decline in **Water**

EBITDA (-0.6%) on one hand reflects the negative effects on revenues of the new regulation (-14.9 €m) and, on the other one, the benefits of the efficiencies achieved in operating expenses.

9M 2016 EBITDA Breakdown



Hera places a new 400 million euro bond

/// Thanks to the contextual Tender Offer on two outstanding bonds, which left overall net debt level unchanged, Hera succeeds in both lengthening the average duration of debt and reducing its cost

At the beginning of October, following the roadshow in London, Frankfurt, Paris, and Milan, Hera successfully placed a 400 million euro bond with domestic and international institutions.

Features of the new issue

Typology	Senior and unsecured bond, not subordinated or convertible
Placed amount	400 million euro
Maturity	10 years
Price	Mid Swap Rate + 60 basis points
Coupon	0.875%
Regulated market listing	Luxembourg Stock Exchange

The new bond, issued within the Euro Medium Term Notes programme, has been placed alongside the launch of a cash Tender Offer on two bonds that had been previously issued, due respectively in 2019 and 2021, and listed on the regulated market of the Luxembourg Stock Exchange.

Bonds tendered for purchase

"€ 500,000,000 4.5 per cent. Notes due 3 Dec. 2019"	ISIN XS0471071133	€105,373,000
"€ 500,000,000 3.25 per cent. Notes due 4 Oct. 2021"	ISIN XS0976307040	€210,151,000

Hera therefore managed to lengthen the average duration of debt from 8.2 to around 9 years, at the same time reducing its cost, while keeping the level of overall indebtedness unchanged.

Circular economy

/// Hera has focused its presence on this topic at the edition of Ecomondo, currently underway at the Rimini fair



Mr. Stefano Venier,
Hera's CEO, at the
2015 edition of
Ecomondo

These days, Hera takes part to the 20th Edition of Ecomondo, at the halls of the Rimini Fair. Circular economy is the topic on which the Company has decided to focus its communication project for this year. A theme also reflected in the exhibition spaces of the Hall C1, Stand 120, where, through the creative use of recycled materials, the activities of the three Group's brands – Hera, Herambiente, and Waste Recycling – are illustrated. By leveraging on a portfolio consisting of 80 plants for the recovery and disposal of urban and special waste, Hera presents its integrated model of waste services, which proves to be unique in the Italian landscape.



At Hera financial communication becomes ever more content-rich and transparent

/// New tools and information flows made available to investors enrich Hera's web site

The quest for putting the stakeholder engagement policy in place has a further milestone in the launch of a new series of tools that Hera makes available on its corporate web site. In the Investor Relations pages, on the web address http://www.eng.gruppohera.it/gruppo/investor_relations/ the investor can access an innovative series of tools and continuously monitor the analyst coverage, the benchmarking with peers in terms both of stock performances and KPIs, the absolute and relative performance of the Hera stock price, and, lastly, the breakdown of institutional shareholders by geography and by investment style.

With the aim of providing all visitors of the corporate web site with real-time updates on the Hera's stock and in general on the financial markets, Hera has signed a partnership with Marketinsight, the format of specialised financial information that focuses on listed companies and on drivers of financial markets, which targets both professional and retail investors.



"Having on our web pages the independent voice of a qualified third party that shows how Hera is perceived – Mr. Jens K. Hansen, Head of Company's Investor Relations states – is a way to overcome the limits of a certain self-referring attitude that a company web site typically sets."

"Our aim – Mr. Hansen adds – is also to take advantage of the contribution of Marketinsight's experts in communicating Hera's key messages, since Bloomberg and Reuters take their pieces of analysis and articles, and their contents are provided to the main Italian trading platforms."

HERA SHARE

Price as at 8 November 2016: **2.16 €**

High-Low 365 dd: **2.66-2.18 €**

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

Mkt. Cap.: **3.22 bn €**

Consensus target price **2.83 €**

(source: broker research)

Hera's stock index membership

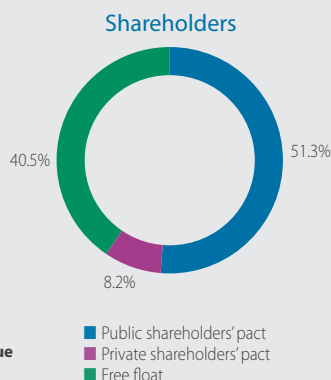
FTSE Italia | All-Share Capped + All-Share + Mid Cap + Servizi Pubblici

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



During 2016, strong fundamentals and a Business Plan indicating highly visible perspectives have supported Hera's continuous outperformance of the FTSE Italy All-Share Index, within a scenario that was not favouring equity investments. In recent months, the European stock indices have been affected by the uncertainty generated by the result of the referendum of late June, which has enshrined the exit of Great Britain from the European Union.

Even though it is increasingly clear that the real size of the Brexit impact will depend on the re-negotiations of the relations between UK and EU – which will be likely decided by the UK Parliament's vote –, the estimates of the European GDP growth rate in 2016 have already been significantly cut.

In the meantime, a risk-averse attitude has spread through most institutional investors; they have therefore sold stocks, with the aim of reshaping their asset allocation. Over the summer – also driven by the worries for an increase in interest rates – a substantial rotation in equity portfolio took place, which led to the exit from defensive shares and to the entry into high-beta cyclicals.

A movement that penalised utilities. During the last few weeks, moreover, the news from the polls of the US presidential elections have increased the level of uncertainty. Lastly, the Italian stock market has suffered from the increase of the Country-risk perceived by international investors, given the consequences that the failure of the constitutional referendum that will take place on 4 December 2016 may have on the Government stability.

The Hera's stock, whose free float has a significant weight of US and UK institutions, has inevitably been penalised by such a rise in perceived risk, even though it has maintained its beta stable, around 0.4: a level that is therefore below the average of both Italian stocks and utilities.



ANALYST COVERAGE

Broker	Target Price €	Rating
Banca Akros	2.80	Buy
Banca IMI	3.02	Buy
Equita	2.75	Hold
Fidientis Equities	2.35	Sell
Goldman Sachs	3.00	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 2.83

8 November 2016

Consensus target price for the Hera stock is at 2.83 euro. It shows a slight increase over the average target price as at 27 July 2016 (2.81 euro), when the last newsletter was released.

The overwhelming majority of brokers' recommendations are positive: 8 out of 10 analysts covering the stocks have Buy or Outperform ratings, on the back of the huge gap that their target price indicates vs. recent stock prices. Presently four brokers have target prices equal to or exceeding 3 euro.

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