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Directors' Report

984,6
million
Ebitda

266,8
million
Net profit

396,2
million
Investments

ROE 9,9 %
Return
on Equity

ROI 9,2 %
Return
on Investment

2,56 x
Net debt/Ebitda
ratio

Financial policy and ratings

The macroeconomic condition of the eurozone is decidedly robust, marked by the impulsive trend created by the climate of trust confirmed in the area, leading to highs since 2011. The economic sentiment indicator (Esi) in the eurozone confirms the favourable positioning of the economic cycle, now in a phase of system expansion. The amenable orientation of fiscal policy, which intensified over the last year and is destined to persist over the upcoming two years, is a further factor that lends support to the economic situation.

Economic surveys confirm and excellent state of health in the eurozone

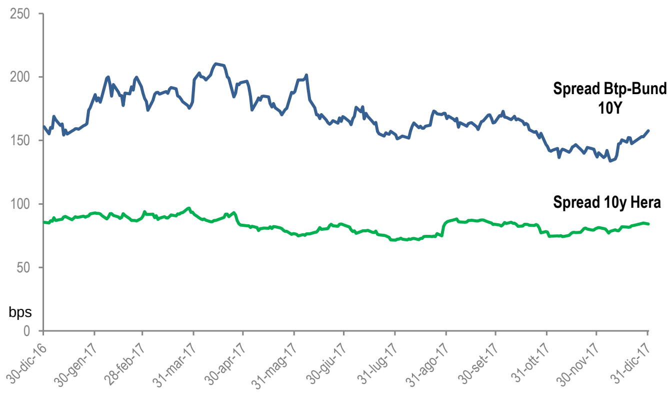
Italy as well recorded positive economic recovery, which accelerated thanks to reforms and a more solid banking system, as is confirmed by the upgrade given by rating agency Standard & Poor's (S&P) on 28 October.
Europe's economic system now appears to be unhampered by the deflationary risks affecting it until last year, but the rise in prices continues to fall short of the goals set by the Central Bank. Expectations for an appreciable recovery in inflation have not as yet been met, with the general inflation rate settling under 1.4% and the core inflation rate (not including more volatile components, such as oil and food prices) remaining even more moderate, coming to 0.9%. The resilient growth has not yet been followed up by pressure towards an increase in prices.

ECB: interest rates unchanged, gradual reduction in QE

This very moderate rise in prices justifies the extension of quantitative easing (QE) decided by the ECB: acquisitions will be protracted for 9 further months at the slower pace, as of January 2018, of € 30 billion per month until September. During the meeting held on 14 December, Draghi confirmed the path set out in October, underlining that progress in inflation must be able to sustain itself autonomously, without the help of monetary policy. Growth estimates have been corrected sharply upwards, while inflation is not forecasted to reach 1.7% before 2020.
In terms of interest rates, there will be no signs of increase until the normalization of monetary policy is completed.
The American Central Bank (Fed), instead, raised interest rates by 25 bps in its meeting held on 13 December, given that it is in a different cyclic position than the eurozone. Even though growth is now stronger and more solid in Europe than in the US, the latter is in a more advanced phase as regards nominal wages, which have responded to the increase in employment, a phenomenon that has not yet been seen in Europe.

The spread between European government bonds, in spite of being significantly tempered by QE, continues to continues to indicate a difference in sovereign risk among eurozone member countries. At the end of the year, the spread between the Italian BTP and the German Bund stayed at much the same level as the previous year, despite the increases seen over the first six months with peaks of over 200 bps.
In spite of this, Hera's 10-year spread did not suffer any consequences, thanks to the consolidated trust shown by investors and its stable creditworthiness, allowing it to remain approximately 73 bps lower than the Btp-Bund spread over the same period of time.

10-Year Btp-Bund Spread vs. Hera Spread



Pre-hedge to optimise the cost of debt

The Group gives constant attention to a financial management capable of maximising its yield profile while maintaining a cautious risk strategy. The average cost of debt has been optimised through forms of liability and financial risk management aimed at seizing favourable market opportunities. In particular, in March, a pre-hedge operation was carried out on the upcoming maturity date to be refinanced in 2019, allowing a particularly low rate to be set for the next issuance, lower than 1%.

To support liquidity risk indicators and optimise the costs/convenience of funding, the Group has obtained committed credit lines amounting to € 300 million, with an average age of two years and eight months.