Year 4, Issue 4

The information contained in this newsletter is as of 12 November, 2009

HeraNews

Investors' Newsletter

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WTE plant in Modena

The press release and the Interim Report as at **30 Sept. 2009,** are available on our website

www.gruppohera.it

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2009 nine months' results and a new 2009-2013 strategic plan: message from the Chairman of the Board

Dear Shareholders,

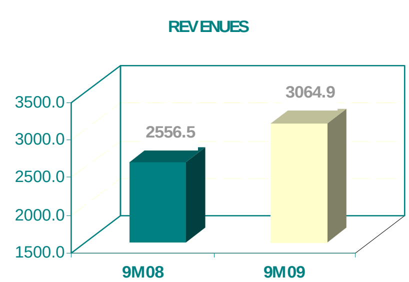
Since the last issue of this Newsletter several relevant facts took place. We have presented an update of our business plan, whose horizon is now 2013. The plan indicates that Hera can target a sizeable expansion in terms of EBITDA (+36%). In spite of some objectives, such as the one of gaining some new 200,000 Energy customers, might look aggressive, the plan keeps high visibility and a very pragmatic profile. We aim to grow, in a balanced way, leveraging on three different pillars - synergies, organic growth and new plants' investments - in order to achieve, in 2013, a portfolio mix with a pretty perfect balance between liberalised and regulated activities. New plants will provide a significant contribution: the WTE in Modena and the CCGT in Imola, inaugurated during 2009, will be fully operating, while starting from 2010 we will enjoy the contribution from the ones under construction: the WTE in Rimini, the Tamarete JV for a CCGT, in Abruzzo, as well as from renewable energy investments we have underway.

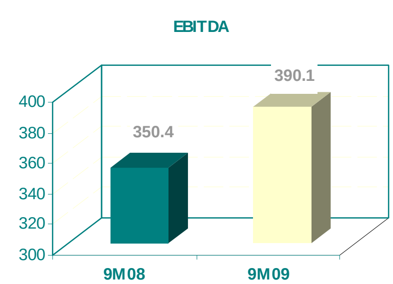
"Hera Business Plan envisages a relevant growth which is already visible in the growing results of the third quarter of this year of economic slowdown"

Thanks to the capital increase approved in the last shareholders' meeting we have started a major reorganisation of the Energy assets: with the expectation of Bologna and Modena, networks were still owned by the Municipalities which entered the Hera perimeter over the last years, through the consolidation process we led. So far we have managed the networks owned by our main shareholders paying fees, which represented an asset remuneration; these leases would have dramatically increased over time. Through the issue of 82 million new shares, which represent 8% of total Hera share capital, we call a capital which will allow Hera to own 85% of the network infrastructure. The relative capital gain will make the deal neutral in terms of 2009 earnings per share (EpS). The reorganisation through Territorial Organizational Units, approved at the last Shareholders' Meeting. provides further visibility to that efficiency gain from synergies that we mentioned as one of the three pillars in the new business plan: we will benefit from the savings stemming from the reduction in the number of companies within our Group, but - what is more - we will also see a merge of the commercial departments of each company into HeraComm. Lastly, organic growth continues to play a key role, thanks to the high visibility granted by recent tariff increases in Waste and Water.

Nine-month results approved by the Board, commented in the following page, indicate that the third quarter of 2009 has been negatively affected by the unexpected revisiting of the so-called "moratoria fiscale". The Law Decree published on 26 September 2009 has generated a charge of 23.5 million euro in Hera's P&L; this issue, which overlaps with a long-lasting crisis, has substantially deteriorated the profitability of most Italian local utilities. Nonetheless, even in such hard times and with an extraordinary negative item to face, Hera achieved good operating results and reported a net profit slightly lower versus last year first 9 months period; net profit would have increased by 19% without extraordinary "fiscal moratoria" highlighting the Group solid path".

Tomaso Tommasi di Vignano





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2009 9M RESULTS
(data in mn euro)

REVENUES 3,064.9 (+19.9%)

EBITDA 390.1 (+11.3%)

EBIT 193.3 (+7.4%)

INVESTMENTS 284.9 (283.6 CAPEX)

NET FINANCIAL DEBT 1,869.6

A NEW MULTI-UTILITY IN HERA'S PORTFOLIO

Purchased a stake of 25% in AIMAG

On 12 October Hera won the tender to buy the 25% majority stake sold by municipal shareholders, for about 35 million euro. AIMAG boasts some 100k customers in the Modena and Mantova provinces, cities which are contiguous to Hera reference territory. Hera has thus grasped an opportunity of consolidating its local presence as well of further developments in contiguous territories over time. The company is a multiutility, with a substantial presence in Energy (ca. 36% of 2008 EBITDA), Waste (ca. 30%) and Water (ca. 26%). 2008 sales exceeded 187 mn euro, while EBITDA was equal to 26,1 mn; in FY08 net profit reached 6 mn. 2009 EBITDA is expected to be about 30 mn. AIMAG was really the last M&A available in the Italian multi-utility segment. Hera, as new majority shareholder, will appoint a board member and the vice-president in the Board of the Company.

The closing of the deal took place on 10 November, 2009.

Focus on 2009 9-month results

Nine-month consolidated results show a sizeable growth (+19.9%) in terms of headline. Such expansion has been led by:

⇒ In Gas, by favourable effects of the new tariff system for gas distribution activities, as per the AAEG 158/08 delibera, which has also moved the beginning of the thermal year - previously on 1 October - on 1 January;

⇒ In Energy, by the increase in commodity prices;

⇒ Lastly, by tariff increases in Waste and Water.

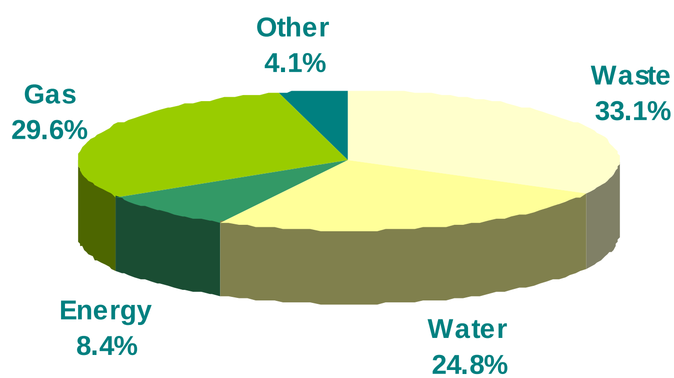
Consolidated EBITDA increases by 11.3%, also thanks to the extraordinary capital gain due to the contribution of gas and district heating networks, while EBIT grows by 7.4%: operating margins therefore prove the resilience of Hera's businesses, in particular thanks to the increasing role of new plants.

Under the EBIT line on the contrary Hera' s P&L have been negatively impacted by the issue of the alleged "State aids" linked to the "tax moratorium" - which implied an overall charge of 28.3 million euro (out of which 15.7 as tax refunding - i.e. other operating costs - and 12.6 as interest expenses). Since these taxes are not deductible a further negative impact of 4.9 million euro had to be added.

Consolidated net profit is then equal to 49.3 million, after the charge of taxes at a rate of 46.3%.

The strong operating growth, even in a critical environment, and the sound financial management, have therefore allowed Hera to limit the negative impact from the unexpected revisiting of the measures about the so-called "moratoria fiscale".

9M 2009 EBITDA BREAKDOWN

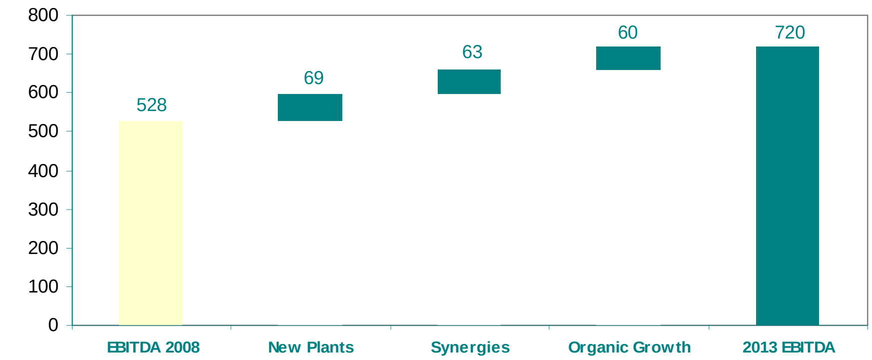


EBITDA	9M 08	9M 09	Change
Waste	130.2	129.2	-0.8%
Water	94.9	96.7	1.9%
Gas	79.5	115.6	45.3%
Energy	34.8	32.6	-6.4%
Otther	10.9	16.0	46.9%

The **Gas sector** is the sole area increasing its weight in terms of contribution to the Group EBITDA vs. the end of September 2008. Indeed it grows from 22.7% as of 30 September 2008 to 29.6% as of 30 September 2009. This mirrors the impacts of the new tariff system, which also anticipated in H109 the proceeds from fixed amounts.

2009-2013 STRATEGIC PLAN

The 5-year business plan indicates a targeted EBITDA growth of **36%** (2008-2013). Such increase – excluding any potential M&A benefit – is led by an expansion in each Group business area and by three different components presented in the chart below, playing a similar role in terms of weight.



The plan implies **a boost in market expansion of sales**, with roughly 3 billion cubic metres of gas sales, volumes sold in electricity doubled to more than 10 TWh thanks to the addition of more than **200,000 new customers**, and more than 6 million tonnes of treated waste.

The expansion of these sectors will be supported by new plants in Hera's reference territory and partnerships in the energy sector in other areas of the country. In the gas business lastly the Group will participate in tender offers in order to entry new geographies. At the beginning of 2010 the WTE di Rimini (120,000 tons/year) will be operative, while at the end of 2010 the CCGT in Tamarete (Abruzzo) should be ready. A substantial contribution is expected from plants whose operations started during 2009 which will be fully operative - the WTE in Modena and the 80 MW CCGT inaugurated on 28 September in Imola.

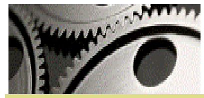
Group financial soundness will be kept stable over the business plan 5-year period. **Capex planned from 2009 to 2013 is in fact expected to stay below cashflow generation.**

Investments will totally amount to **1.8 billion**, out of which about 1 bn from development and 800 mn in maintenance.

2013 TARGETS

EBITDA 720 € mn (+36% over 2008)

2009-13 INVESTMENTS 1.8 € bn



	2008	2013 E
Net Invested Capital (bn)	3,2	3,8
ROI (%)	9	11
ROE (%)	7	10
D/E (x)	1,0	0,9
D/EBITDA (X)	3,0	2,7

In 2013 Hera's assets will be: 51% regulated activities; 49% liberalised.

Details of the CCGT in Rimini

SHAREHOLDERS' MEETING

TH ECAPITAL INCREASE FOR THE NETWORKS' CONTRIBUTION

On 21 October Hera shareholders approved a capital increase of 82,276,052 ordinary shares, thus increasing from 1,032.7 to 1,115.0 million, in relation to the contribution, by some public shareholders of Hera S.p.A, of gas distribution networks (appraised value of 122.4 million) and district heating networks (appraised value of 21.6 million), amounting to a total of 144.0 million.
The effective date of the operation is set at 1 December 2009 and is EPS neutral.

THE GROUP RE-ORGANIZATION

Shareholders also approved a relevant group reorganisation, which will lead to substantial benefits in terms of synergies and of a simpler inter-company structure, both from the accountancy and the fiscal perspective. The seven Territorial Operating Companies will be merged into the Parent Company, while their commercial activities will be Integrated into HeraComm.
The reorganisation will result in the establishment Territorial Operating Structures, which will allow Hera to keep a strong local control.

BOARD - NEW ENTRIES

On 21 October shareholders appointed two new board members, replacing Mr.Luciano Sita and Mr. Nicodemo Montanari who resigned – Mr. Paolo Trombetti, a lawyer from Bologna, as independent non-executive member, and Mr. Daniele Montroni, Chairman of Con.Ami, the third most important shareholder in Hera share register.

NEW LIMIT TO INDIVIDUAL SHAREOWNERSHIP

During the Shareholders' Meeting a rise, from 2% to 5%, in the limit of individual share-ownership was approved.

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FINANCIAL CALENDAR 2010

Financial Calendar for FY2010 will be released at the end of the current year

March
Board for the approval of 2009 annual results

The network remote-control center in Forlì

HERA STOCK

Price as of 11 Nov. 2009: 1.55 €
High-Low 365 dd: 1.82-1.09 €
N. outstanding shares: 1,032,737,702
Mkt Cap.: 1.6 bn €

Specialist: Banca IMI

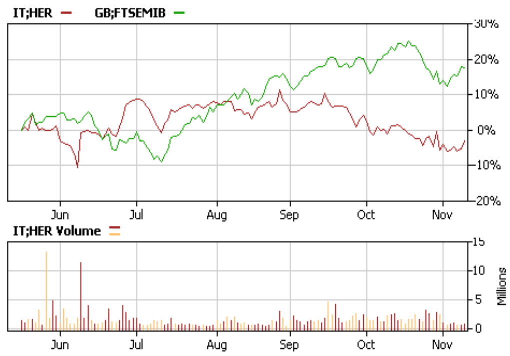
Consensus target price (source: broker research): 2.03€

Stock Exchange Indices including Hera

FTSE Italia Mid Cap
DowJones Stoxx TMI
TMI Utility
Axia Ethical
Kempen/SNS Smaller Europe SRI Index
Dow Jones Stoxx 600

Next issue of this **newsletter** will be released in **March 2010**

Hera share 6-month and 3-year performance vs. FTSEMIB

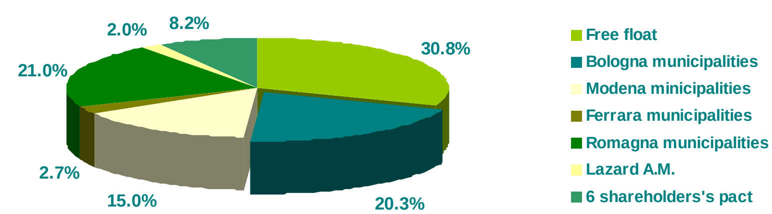


Source: Thomson Reuters

Since March 2009 equity markets recovered part of the downtrend generated by the financial and economical crisis globally. Italian local utilities, including Hera, showed the same upturn, even though starting from August 2009 their performance was quite different from the one of the all-share Italian Index, which was rather driven by an expectation of improvements in the economic context which mainly favoured cyclical stocks. The 'moratoria fiscale' issue played a negative role in investors' perceptions; they penalised the whole local utility sector in Italy, likely overestimating the actual effects on Hera's P&L.

Shareholders and Analyst Coverage

MAIN SHAREHOLDERS



The 8.2% share capital stake refers to a pact of six shareholders: Gruppo Società Gas Rimini, Fondazione Cassa di Risparmio Forlì, Carimonte Holding SpA, Fondazione Cassa Risparmio Imola, Equiter SpA, Fondazione CarisBo.

Some relevant changes on the research side occurred since the issue of the last newsletter.

Hera has been among the best picks of Banca Leonardo last September, while Unicredit in October released a new report presenting Hera as its favourite Italian local utility.

Present consensus target price is 2.03 €. The revaluation gap is therefore very attractive, exceeding 31%.

	November 11, 2009	
Broker	**Target price €**	**Rating**
Banca Akros		Buy
Banca IMI	2.0	Add
Banca Leonardo	2.1	Buy
CAI Cheuvreux	1.8	Underperform
Centrobanca	1.8	Hold
Equita	2.0	Buy
Intermonte	1.8	Neutral
Kepler	2.0	Buy
Mediobanca	2.0	Outperform
Merrill Lynch	2.4	Buy
Santander	2.3	Buy
Unicredit	2.0	Buy
Average	**2.01**	

We welcome your comments on this newsletter. Please send them to: ir@gruppohera.it

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