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The Business Plan confirms growth targets based on a solid strategy

Dear Shareholders, the 2011-2015 Business Plan, which the Board approved today, is based on 2011, a first year that looks like healthy and geared for growth, if we consider the picture at the end of the first nine months, in spite of the hard external environment. Results as of 30 September 2011, with the EBITDA increasing by 8.2%, once more prove how the Hera model can be rewarding in guaranteeing growth while keeping risk profile under control, even in a negative scenario. A well diversified portfolio across regulated and liberalised activities, a flexible approach to the upstream business, effective marketing policies and, last but not least, efficient WTE plants available after a cycle of demanding investments, allowed us to face in 2011 a series of negative external factors without repercussions: that is, the increase in the price of the gas commodity, less favourable weather conditions than in the first nine months of 2010 and, in general, the impact of the economic crisis on volumes, besides a tax worsening.

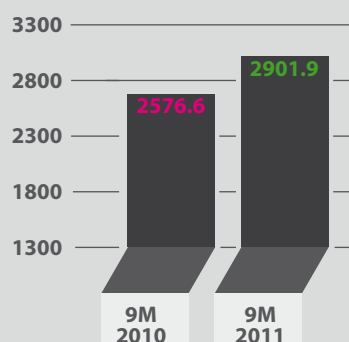
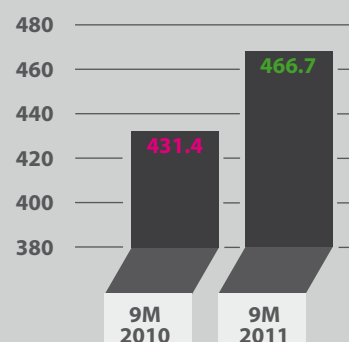
The updated Plan therefore means to continue to leverage on these strengths in order to add some 200 million EBITDA in the five-year period, in sight of an EBITDA of 800 million euro in 2015, as you can examine more in depth at page 3. Below the EBIT line, the Hera's P&L will present a different shape compared to the past. Expected operating cash flow – EBITDA being a good proxy

Results of the first nine months once more prove how the 'Hera model' can be rewarding in guaranteeing growth while keeping risk profile under control, even in a negative scenario.

of it – will in fact allow us to fully fund the average annual capital expenditure, around 340-350 million (declining from 430 million in the previous five-year period) and to generate a free cashflow of some 160 million euro in 2015. We expect a lower absorption from net financial charges, not only for the lower capex plan compared to the past, but also because we believe that we can maintain a good credit standing, as the S&P's and Moody's ratings confirmations have recently proved, while the Italy sovereign debt has been downgraded. The lower weight of net financial charges will allow us to transfer the growth from EBITDA down to bottom line to a wider extent than in the past – essential condition for an attractive shareholder remuneration through dividends.

Tomaso Tommasi di Vignano


THE NEW BUSINESS PLAN CONFIRMS HERA'S GROWTH PROFILE: EFFECTIVE BUSINESS PORTFOLIO, HIGH VISIBILITY OF TARGETS AND FINANCIAL FLEXIBILITY TO CATCH MARKET OPPORTUNITIES.

Revenues

Ebitda




NINE MONTHS 2011

(figures in million euro)

REVENUES

2,901.9 (+12.6%)

EBITDA

466.7 (+8.2%)

EBIT

240.5 (+10.2%)

INVESTMENTS

213.2
(100% CAPEX)

NET FINANCIAL DEBTS

2,055

Focus on 2011 nine-month results

/// All business areas provide a positive contribution to the growth of consolidated EBITDA (+8.2%), which remains strong in spite of a difficult environment.

/// In particular the Electric Energy area expands its weight, thanks to the sizeable rise in volumes sold (+30.9%), while in the Waste area, the new WTE plants - now fully operational - allow Hera to substantially increase the production of energy incentivised with green certificates.

Results of the first nine months of 2011 present, compared to the ones achieved one year before, an improvement in all the main P&L items. This is firstly proven by revenues, expanding by 12.6%, up to 2,901.9 million euro. EBITDA as well grows up to 466.7 million, even though at a lower rate than revenues (+8.2%), because of the price increases experienced in the gas commodity and owing to the weight of results achieved in the Electric Energy area. EBIT then reaches 240.5 million (+10.2%),

notwithstanding the cautious provisioning policy and the increase in depreciation due to the newly-operational plants.

Pre-tax profit, improving by 15.4% to 156.2 million, mirrors the limited absorption from net financial charges (+1.8%), thanks to a net financial debt under control.

Lastly, the increased tax rate due to the recent legislation changes does not prevent net profit from reaching 84.0 million euro, with a 6.2% increase.

*Looking at the performance by business area, the best increase in EBITDA comes from **Electric Energy**, which not only climbs by 37.6% compared to one year before, but also grows its weight on consolidated EBITDA from 9.4% as of 30 September 2011 to 11.9%. A key driver were higher volumes sold (+30.9%), stemming both from an effective marketing activity and from newly-gained default-provider service customers (+104,000 new supply points).*

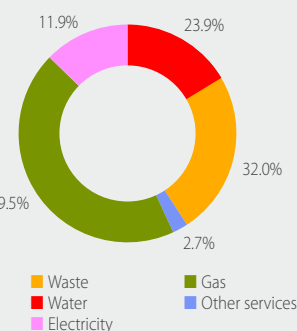
***Gas** EBITDA, growing by 5.4%, if on one hand benefits from*

the merger of Sadori Gas, on the other hand reflects the negative impact of milder temperatures than in 2010 and of the increasing cost of the commodity, as a consequence of the Libyan war as well.

*In the **Waste** business EBITDA rises by 7.1%, driven by a 3% hike in regulated collection tariffs and in particular by higher electricity generation, thanks to a 14.2% increase in waste treated at new WTE plants, now fully operational (as this activity generates green certificates). In 2011 such business area also consolidates 50% of Enomondo srl, a company with an attractive biomass thermoelectric plant, exceeding 120k tons of waste treated.*

*Lastly, in the **Water** area EBITDA slightly (+1,3%) improves; even though profitability conditions in such business remained unchanged, Hera had to face higher pumping costs due to scarce rainfall.*

9M 2011 EBITDA Breakdown



EBITDA

€ mn	9M 2010	9M 2011	Change
Waste	139.3	149.2	7.1%
Water	110.2	111.6	1.3%
Gas	130.7	137.7	5.4%
Electric Energy	40.4	55.5	37.6%
Other	10.9	12.7	16.1%
TOTAL	431.4	466.7	8.2%

Hera will build a new WTE plant in Florence

Having awarded the tender, Hera will build its first new plant outside of its reference territory. The 13MWh plant will boast a capacity of 140k ton per year.

2011-2015 Business Plan

/// The new Business Plan targets a 200 million euro growth at EBITDA level over the five-year period, in sight of reaching 800 million euro in 2015.

EBITDA drivers

The most relevant driver is also the one presenting the highest visibility, on the back of the track record that Hera has achieved so far: 54% of overall growth is expected to come from Synergies and Organic Growth; in particular the targeted expansion in the market share of Electricity and Waste would play a pivotal role (+40 million), besides tariff adjustments in Network activities (+20 million). Despite Hera has got over the peak of its investment cycle, new plants will however provide some contribution (29 million), with a specific focus on the "bio" activities (biomass and photovoltaic projects).

The third driver for EBITDA growth, namely Growth by External Lines (M&A), plays a key role in this Business Plan, providing some 60 million. Even regarding such a driver, the visibility of the EBITDA increase that Hera can achieve is high, if we consider the coming completion of the deals, already partly closed, such as in the case of Sadori Gas (consolidated in 2011) and in the case of AIMAG, whose capital Hera presently controls by 25%. On top of these deals we have to add the reasonable likelihood of awarding the tenders in the areas in which Hera presently controls the gas concessions.

The contribution from different business areas

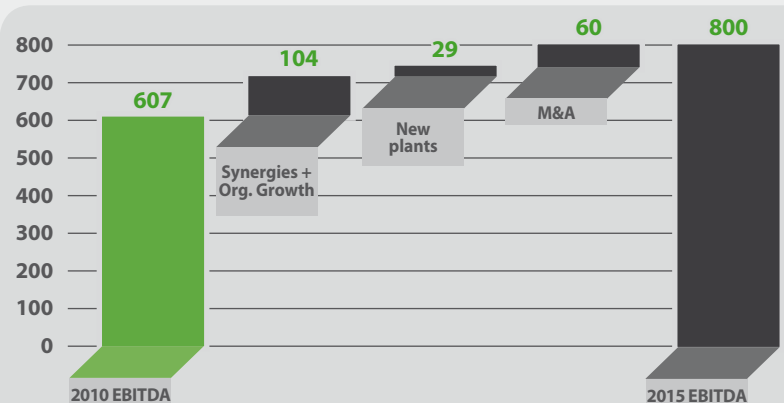
From a business viewpoint, **Waste** is the area expected to provide the most sizeable contribution to consolidated EBITDA growth (+98 million), representing over the half (50.8%) of the 193 million of the targeted increase at Group level. That would happen by focusing on high value-added activities, through an increase of market volumes (+1.3 million tons), at the same time through a decline of landfills waste (from 25% to 18%) as well as through 250 GWh increase in energy productions incentivised with green certificates.

From **Networks** is expected a similar contribution, to the extent of 81 million euro, thanks to the expected tariff increases (on average 2% per year in all regulated businesses), due to the gain of new efficiencies and to the expansion of the network (+14%).

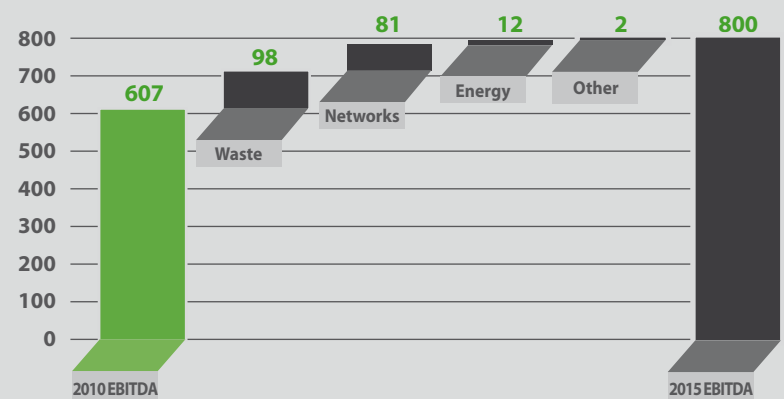
Lastly, the growth component stemming from **Electric Energy** is not negligible. Such area will continue its commercial expansion also leveraging on cross selling, with the expectation of gaining 350,000 new gas customers and 240,000 new electricity customers. In the meantime that area will maintain careful procurement policies, while also focusing on renewable energies (+15%).

Capex Plan and Financial Strategy

The 5-year investment plan is around **340-350 million euro per year**, following a declining trend over time. That means a sizeable decrease



The 200 million growth targeted at EBITDA level in 2015 is based on high visibility drivers, included the M&A activity.



In all its business areas Hera expects a cashflow generation exceeding the funding needs for new investments.

compared to the 430 million yearly plan that Hera has carried out in the 2006-2010 period.

Efficient investments from the past will allow Hera to rely on a **cash flow generation exceeding the need for funding new capex in all business areas**. At Group level that will mean a continuous **improvement in the 'Debt-to-EBITDA' ratio**, which is expected to fall below 3 times by 2013 and to bottom at around 2.7 times in 2015.

Over the 5-year period Hera also targets a profitability improvement, with **ROI (Return on Net Invested Capital)** expected to rise **from 8.5% in 2010 up to 10.5% in 2015**.

Hera fosters its leadership even through innovation

The new project in electric mobility

In September 2011 Hera has launched a new important project in electric mobility, jointly with the Emilia-Romagna Region and Enel; this makes Hera a pioneer in services provided to its reference territory. In Modena and Imola, the two Municipalities in which Hera operates the distribution network, electric vehicles can be recharged at public charge stations. The project, which is linked to the networks of other Municipalities covered by Enel, involves a sizeable area, around 200sqm-wide.



Hera share

Price as of 9 Nov. 2011: **1.13 €**

Low-High 365 dd: **1.02-1.76 €**

No. outstanding shares: **1,115,013,754**

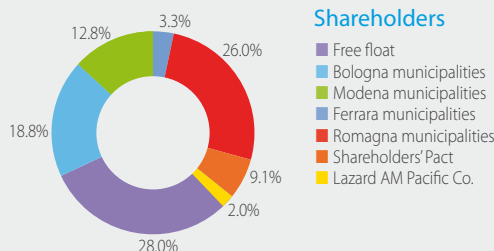
Mkt. Cap.: **1.26 bn €**

Specialist: **Merrill Lynch**

Consensus target price: **1.65 €**
(source: broker research)

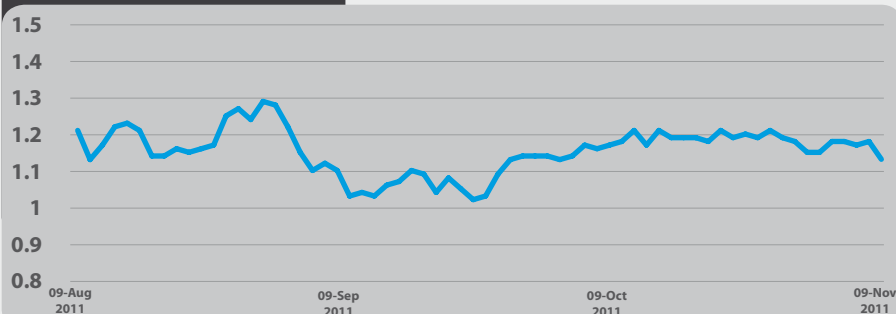
Hera's stock index membership

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



Among institutional investors, on 24 October 2011 Lazard Asset Management Pacific Company, who in the past for a long time has already been a shareholder of Hera, has declared (filing) to own a stake equal to 2.01% of the share capital.

3-month absolute performance



Performance Hera vs. FTSE Italia All-share Index



In the days following the release of 2011 Interim Results (25 August 2011) Hera has reached a new high (1.29 € on 31 August); later on, it was involved in the sharp correction that affected the whole Italian stock market. Such downtrend has led the price to bottom at 1.02 € on 23 September. Starting from the last week of September, Hera has recovered some 20%; in October it has then consolidated a lateral movement, ranging around 1.2 €. The second chart shows that over the last 12 months Hera has continuously outperformed the Italian equity market (FTSE All-share Index), even though such outperformance weakened after July, when the growing country risk has discouraged many foreign investors – a key component among Hera's institutional shareholders – generating negative effects on the whole Italian equity market, regardless of the fundamentals of each stock.

ANALYST COVERAGE

Consensus rating on Hera has improved compared to the last issue if this newsletter, two neutral recommendations having been upgraded to 'Buy'. At present all brokers suggest to buy Hera's stock, except for Centrobanca, who nonetheless invites investors to maintain Hera in their portfolios. The share is furthermore included in the 'Top Picks' list of four brokers: Banca Imi, Deutsche Bank, Kepler and Unicredit. The average target price of the 13 analysts is 1.65 €: the potential upside compared to recent stock prices is therefore around 45%.

Broker	Target Price €	Rating	Broker	Target Price €	Rating
Banca Akros	1.4	Buy	Exane BNP Paribas	1.6	Outperform
Banca IMI	1.4	Buy	Intermonte	1.4	Outperform
Banca Leonardo	1.9	Buy	Kepler	1.9	Buy
CAI Cheuvreux	2.0	Outperform	Mediobanca	1.8	Outperform
Centrobanca	1.4	Hold	Merrill Lynch	1.8	Buy
Deutsche Bank	1.9	Buy	Unicredit	1.4	Buy
Equita	1.6	Buy	Average	1.65	

9 November 2011

CONTACTS

Head of Investor Relations

Jens K. Hansen

T.+39 051 287737

jens.hansen@gruppohera.it

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Jens K. Hansen

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