

## 2008 nine-month results released: message from the Chairman of the Board

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**The 9M08 Results Presentation** is available on  
Hera's corporate website  
at:

[www.gruppohera.it](http://www.gruppohera.it)

**Investor Relations /  
Presentations**

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Dear Shareholders,

Results of the first nine months of 2008 show a sizeable expansion of revenues, which reach 2.5 billion euro and exceed by 31% those achieved in the same period of 2007.

The substantial increase of the headline has been driven by higher sales revenues in Electricity, thanks to encouraging developments in Trading as well as in Sales and Marketing. A significant contribution also came from the Gas sector, which benefited from higher volumes in sales and distribution, thanks to temperatures that were more favourable than in 2007, even though still well below historical averages.

Moreover we consider satisfactory the result achieved at the EBITDA level, which increases by over 17% and exceeds the 350 million euro mark - sound operating profitability has in fact been led by continuous efforts in cost control even when experiencing a sharp rise in volumes as well as by our strategic presence in new activities and services.

2008 will be the last fiscal year, over the strategic plan timespan, involving demanding investments while only partially benefiting from the contribution of new plants. Indeed in 2008 we heavily invested - some 292 million, precisely as much as in the first nine months of 2007. By the end of 2008 we will have both the WTE in Modena and the cogeneration plant in Imola fully operational.

So, starting from 2009 we will gradually benefit from the investments we succeeded in financing while keeping our solidity strong.

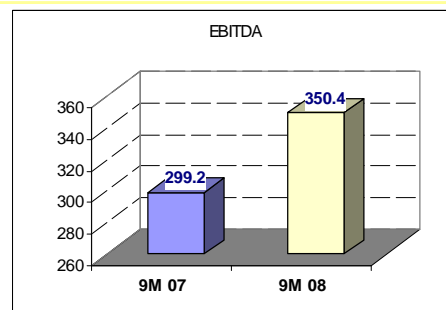
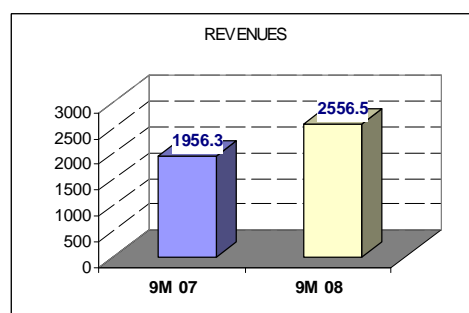
The only plant becoming operational in the last part of the plan timeframe - likely at the end of 2009 or at the beginning of 2010 - will be the WTE in Rimini, whose capacity is however relatively smaller, equal to 10 MW.



Concerning the outside talks, last 11 October we had to close our negotiations started in May with Iride and Enia, due to the impossibility to stretch the timing initially agreed.

We will continue to work on the sector consolidation, because we still believe that it can bring dramatic advantages. This will not prevent us from focusing on our business as usual, in order to continue to achieve that organic growth which has been our peculiarity since Hera's inception.

Tomaso Tommasi di Vignano



## FIRST NINE MONTHS OF 2008

(data in mn €)

REVENUES 2,556.5 (+30.7%)

EBITDA 350.4 (+17.1%)

EBIT 180.0 (+16.8%)

INVESTMENTS 292.2

NET FINANCIAL DEBT 1,597.9

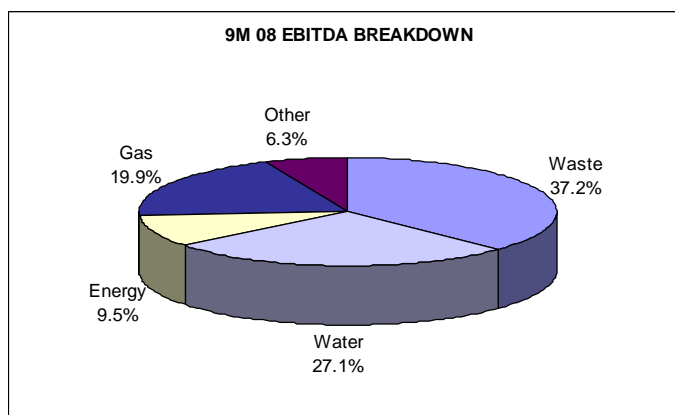
## A closer look at our performance in the first nine months of 2008

Consolidated revenues increase by 31%, while both EBITDA and EBIT grow by some 17%.

Pre-tax profit, which shows a slight decline (-1.6%), discounts higher net financial charges by some 22 million euro - out of which 5.6 mn represent one-off financial charges due to the so called "Moratoria Fiscale" and to heavier interests calculated on the old CDP mortgages.

Contribution to EBITDA stemming from the Electricity proves to be stable vs. the end of September 2007, while Gas increases its weight, thanks to higher volumes, close to 20%.

As a consequence Waste and Water reduce their contribution to EBITDA - from 67.2% as at September 2007 to 64.3%.



## NEW BOND ISSUE

**Sound Hera's credit profile confirmed by the bond issued at the end of September 2008**

**Hera issued a 200 mn euro bond, which can step-up to 250 mn, lengthening the average duration of its debt at attractive conditions.**

The "Puttable Callable Re-settable Step-up Bond" is an issue that contains put and call options and provisions for resetting the interest rate.

For the first three years, the bond pays on a quarterly basis a fixed coupon of 4.20% p.a. on the initial amount of Euro 200m, equivalent to 3 months Euribor rate at the time of the issue, minus 90 basis points. Hera will therefore benefit from a debt cost significantly lower than the inter-bank one.

Thereafter, should the bond not being repaid at par, its principal amount will step-up to Euro 250m. The bond will then pay a quarterly fixed coupon of 4.65% p.a. plus the then prevailing 5yr Hera' credit spread, reset every five years by auction, until maturity, in 2031.

Such a tool provides flexibility to bond holders and allows Hera to lengthen the duration of its debt.

## THE PICTURE OF HERA'S DEBT

Financing is an issue for many listed companies, finding difficulties in re-financing their debt or in affording the cost at present interest rate levels. In such a critical environment, Hera can rely on a sound debt structure, on sizeable credit lines to cover future needs as well as on a cost of debt which is visible and sustainable.

The recent issue allows us to focus on an updated picture of the medium-long term debt at Hera, as you can see in the detailed table hereafter.

Hera debt is 90% at fixed rates and for the remaining part covered by IRS - Interest Rate Swaps. Hera furthermore can count on the availability of credit lines to an overall extent of 350 mn €, through several domestic and international banks. Such an amount can guarantee 75 mn € expiring by 2008 and further 180 mn expiring over the coming 5 years. Those credit lines are presently used at an average of less than 30%.

According to strategic plan targets Hera is committed to keep the Debt/EBITDA ratio around 3x. This paves the way to favourable ratings coming from Standard&Poor's e di Moody's - both of them exceeding the 'investment grading' level - and therefore to maintain a limited cost of debt.

Bond	Year of issue	Rating S&P	Amount (m€)	Duration	Interest rate
<b>Eurobond</b>	2006	"A"	500	10	
for 10 years					Fixed (4.125%)
<b>Extendable Put Bond</b>	2007	"A"	200	20	
first 5 years					Variable (Euribor 3 months -45 b.p.)
last 15 years					Fixed (4.85% + Credit Spread)
<b>Put Bond*</b>	2007	"A"	100	13	
first 3 years					Variable (Euribor 3 months -28 b.p.)
last 10 years					Fixed (4.593% + Credit Spread)
<b>Put loan extendable step-up*</b>	2007	-	50	13	
first 3 years					Variable (Euribor 3 months -45 b.p.)
last 10 years					Fixed (4.41% + Credit Spread)
<b>Put loan extendable step-up*</b>	2007	-	50	13	
first 3 years					Variable (Euribor 3 months -46b.p.)
last 10 years					Fixed (4.44% + Credit Spread)
<b>Resettable step-up Put Bond</b>	2008	-	200	23	
first 3 years					Fixed (Euribor 3 months - 90 b.p.)
last 20 years					Fixed (4.65% + Credit Spread)

Interest rates presented assume that put options will not be exercised

## INTERVIEW - Managing director of Hera Comm, Cristian Fabbri, explains sales and marketing strategies



**Mr. Fabbri, after the liberalisation of the electricity energy market, many operators started a visible and aggressive marketing battle. What will be Hera's role in this game?**

**Hera Comm**, the Hera Group's company dedicated to commercial services in energy and gas, aims to play a primary role in the competitive arena.

Differently from big players that have to put up their client portfolio starting from scratch, we can leverage on consolidated customer relationships thanks to our historical distribution activity.

We have a substantially different offer range if compared with competition - Hera was the first player to launch a combined electricity-gas dual offer in 2003. Furthermore we can rely on a unique atomistic sales network.

**May such a high capillarity also help you in gaining new clients?**

I do believe so. This is why our sales and marketing organisation presents a Key Accounts' network, focused on large clients, besides a sales network targeting small and medium enterprises, SOHOs and families. Even after-sales service structures are a relevant sales channel in particular with families contacting us about other services we already provide to them. Actually some competitors are opening their points of sales; for sure they cannot rely on the level of territory penetration we enjoy nor on the same structure of marginal costs, which we can keep low thanks to synergies with other businesses in our portfolio.

**So your offer will be mainly focused on targeting a strong local presence?**

Hera comm operates in any Italian regions. Our clients in fact are

spread all over Italy, but our rationale is to concentrate our efforts in our historical presence area or in the neighbourhoods - that is Emilia Romagna, Marche and Southern Veneto.



**What are the most important competitive advantages in your offer?**

We have two main pillars: on one hand we have provided families and corporates with a customised offer, on the other one we boast excellence in after-sales services.

This means that we materially have 30 different types of offer packages available—at fixed price, floating, at a discount vs. the AEEG regulated tariffs, embedding a dual-fuel offer...

As regards after-sales services we operate through three channels: firstly we have a call centre with two different lines for business and retail clients, providing accessibility and quality well above sector average; secondly we rely on a 80-point-of-presence network which is unique in Italy; thirdly we provide online services both to families and business clients, ranging from contract management to communication of consumptions, till the electronic billing.

**So price is not the 'sole' name of the game?**

You see, you could even gain new clients thanks to an appealing offer, but only good after-sales services make them stay with you.

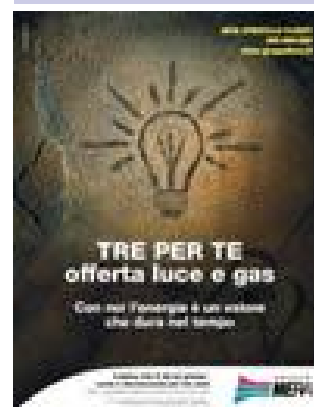


***"We have a substantially different offer range if compared with competition. We can rely on a unique atomistic sales network."***

***"You can gain new clients thanks to an appealing offer - but only good after-sales services make them stay with you"***

### 3X3 OFFER

Hera is the only player offering electricity and gas at prices which will remain unchanged over the coming three years—this providing clients with a shelter from potential increases in commodity prices.



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## 2009 FINANCIAL CALENDAR

**End of March**  
Board for the approval of 2008  
Annual Results

## HERA SHARE

Price as at 13 Nov. 2008: 1.7 €  
365 dd Low-High: 1.35-3.14 €  
Outstanding shares:  
1,032,737,702  
Mkt Capitalisation: 1.76 mld di €

Specialist: Banca IMI

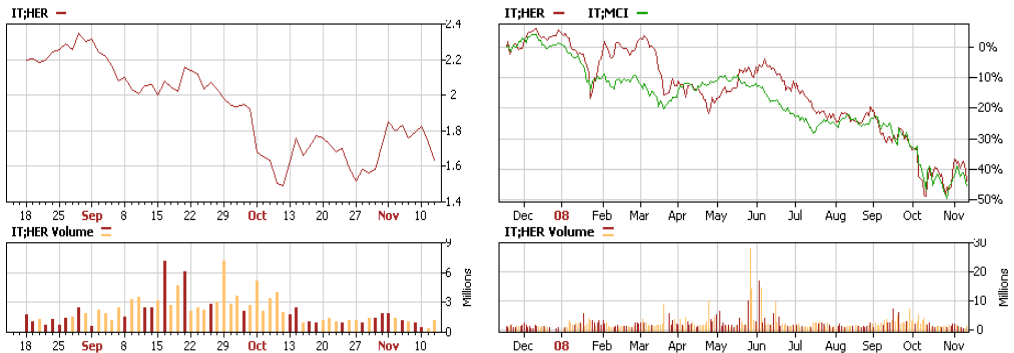
Consensus target price (source  
Thomson Reuters): 2.8€

## Stock Exchange Indices including Hera

Midex—Borsa Italiana  
DowJones Stoxx TMI  
TMI Utility  
Axia Ethical  
Kempen/SNS Smaller Europe SRI  
Index  
Dow Jones Stoxx 600

Next issue of this **newsletter**  
end of March 2009

## Hera share's 3-month and 1-year performance vs. MIBTEL



Source: Thomson Reuters

Over the last 3 months Hera's share price has initially presented a sizeable fall, from a level around 2.2 € in September 2008 down to around 1.35€, experienced a couple of times in October. In November share price has re-bounced up to levels above 1.8 €. Such a trend results in being perfectly in line with the Italian all-share index performance, as proven by the chart on the right.

Since the last issue of this newsletter, consensus target price dropped from 3.3 to 2.8 €. At current prices the re-valuation gap has widened up to around 65%.

In the meantime - on 10<sup>th</sup> October - an initial coverage of Exane BNP Paribas was released, with a Neutral recommendation and a 2.3 € target price. Exane also raises the average profile of the research on Hera, since they are the ninth best broker according to the Thomson Extel's 2008 Pan European Survey.

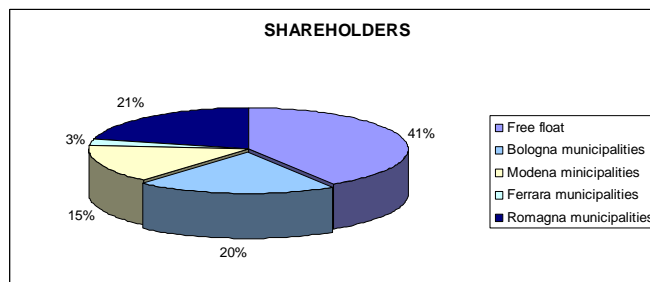
Broker	Target price €	Recommendation
Axioline		Buy
Banca Akros	2.8	Buy
Intesa Sanpaolo	2.6	Buy
Banca Leonardo	2.8	Buy
CAI Cheuvreux	2.7	Outperform
Centrobanca	2.4	Neutral
Cazenove	3.0	Outperform
Citigroup	3.5	Buy
Dresdner Kleinwort	3.1	Buy
Euromobiliare	3.0	Buy
Exane	2.3	Neutral
Intermonte	2.5	Neutral
Kepler	1.9	Reduce
Mediobanca	3.0	Outperform
Merrill Lynch	2.8	Buy
Santander	2.9	Buy
<b>Average</b>	<b>2.75</b>	

Source: Brokers' research

Coming back to the update in brokers' valuations, analysts incorporated two different issues when revising their target prices:

1. On one hand the adjustment in WACC due to effect of the financial crisis underway, as a general trend in the utility industry as a whole;
2. On the other hand the opportunity that recently Hera missed of benefitting from a sector aggregation – which drove analysts to cancel any M&A premium previously embedded in the share valuation due to potential synergies.

The following table, which presents the picture of the 16 brokers covering Hera, shows just Neutral or Buy recommendations. The sole 'Reduce' rating is not that meaningful, provided that it points out a target price of 1.8 €, in line with recent share prices.



The picture of main Hera's shareholders has not changed if compared with the last newsletter issue.

HeraNews: managed by Jens K.Hansen

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