

Year 4, Issue 1

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The HTML version of our Annual Report and the Press Release are available on the website at:

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**Investor Relations/
Report and Results
Press Releases**

HERA SPA

Headquarters:
Viale C. Berti Pichat, 2/4
40127 BOLOGNA
T.+39 051 28.71.12
F.+39 051 28.14.030
www.gruppohera.it

HeraNews

Investors' Newsletter



Presented FY08 Results and the 2009-2011 Strategic Plan: Message from the Chairman of the Board

Dear Shareholders,

During fiscal year 2008 Hera succeeded in posting an all-time record in terms of organic growth, while expanding Return On Invested Capital from 7.4% to 8.9%; that happened despite crisis was somewhat conditioning demand. The Board will propose to the Annual Shareholders Meeting to confirm the 8 cts dividend distributed last year; over the last months stock markets have experienced an undifferentiated price decline which has impacted the Hera share too, in spite of any consideration of healthy fundamentals. In light of this scenario and on the back of recent stock prices, 8 cts represent a dividend yield around 6%, which is not negligible at all.

Fiscal year 2008 has seen the ending of a demanding investment cycle at Hera. We have substantially completed the development capex plan announced at the time of the IPO, once - in the second half of the year - both the WTE (Waste-to-Energy) plants in Forlì and in Modena started their operations. Development capex will actually be fully operational when even the Rimini plant will contribute with further 12 MW. M&A activities continued in 2008 through the integration of SAT in Sassuolo and of Megas in Urbino. Even Megas Trade and two new joint ventures we have put up in order to build new generation capacity entered our portfolio.

Growth, both organic and via M&A, has been achieved over the last six years keeping the financial structure solid and well-balanced: we managed to invest over 2.5 billion without any negative impact on debt ratios because we have been very smart in correctly evaluating returns from new plants, in pursuing ever bigger efficiencies through technological innovation, in extracting synergies from acquisitions - this meant that we could generate huge cash flows while growing. From this viewpoint it appears clear why the merger with Iride and Enia could not have become effective: our discipline in value creation implies that a true integration has to take place in order to be able to extract synergies from a merger.

We are facing the negative economic momentum with our usual commitment and - I would add - even in a confident way, since we can leverage on a well diversified business mix. In the future we will go ahead along this consolidated strategic direction of pursuing an ever more balanced mix of portfolio businesses.

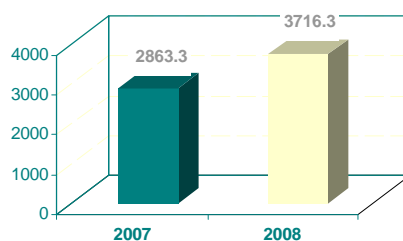
The today's Board approved a plan which targets a 670 million EBITDA in 2011; we think we can gain further market shares in liberalised markets, where upstream integrations allowed us to get a strong positioning; the expertise we boast on WTE technologies furthermore provides us with an attractive potential skill to leverage upon. A high visibility features our regulated businesses - both in water and in waste we achieved tariff increases which embrace the whole regulatory period, till 2012. On the other hand we will be able to rely on a growing contribution from new plants while they become fully operational. Therefore we can expect that even already in 2009 cashflow will exceed annual capital expenditure, with a positive impact both on debt ratios and on our future capability of dividend distribution.

Tomaso Tommasi di Vignano

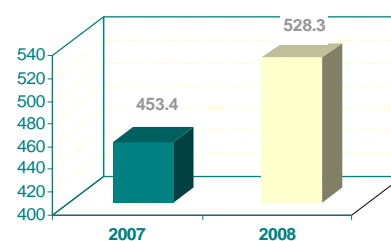


"In 2008 Hera has posted an all-time record in terms of organic growth, while increasing ROI to 8.9%"

REVENUES



EBITDA



FY 2008

(mn euro)

REVENUES 3,716.4 (+29.8%)

EBITDA 528.3 (+16.5%)

EBIT 280.7 (+27.3%)

INVESTMENTS 429.7 (419.7 CAPEX)

NET FINANACIAL DEBT 1,571.5



WTE plant in Modena

Focus on FY08 Results

All business areas contributed to drive the 29.8% revenue growth vs. 2007, thanks to:

- A wider impact of **electricity trading**, driven by volumes expanding by 17%, which have more than compensated the negative impact of a 3.0% decline in tariffs;
- An increase in **gas sales**, led by an upturn in volumes (+7%) thanks to more favourable weather conditions than in 2007, but also thanks to the 5% increase in the customer base, now equal to 1.1 million units;
- The 2008 tariff increase achieved by the local authorities both in the **Water** (+8%) and in the **Urban Waste sector** (+ca.2.6%); in particular in the Waste business results where enhances by an increase in volumes (+17.3%) experienced over the same timeframe.

EBITDA grows by 16.5% up to 528.3 million euro. The 75 million added if compared to 2007 stem - to the extent of a 20% - from newly consolidated assets; a 51% of

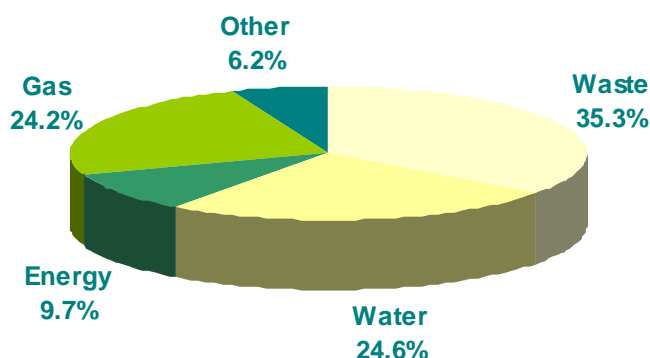
the increase in EBITDA comes from organic growth and from synergies while the remaining 29% from the contribution of new plants: over 80% of the growth is therefore 'organic'.

EBIT rises by 27.3%, after the charge of 247.6 million of Depreciation & Provisions items. The year 2008 will be the last one characterised by sizeable capital expenditure (ca.420 million).

Net Financial Charges, accounting for 2.5% of revenues, mirror the expansion of net financial debt, which at the end of the year was equal to 1,571.5 million (was 1,431.7 at the end of 2007).

After a 78.6 million payment for taxes (tax rate of 41.6%), Hera posts a Net Profit of 110.3 million, substantially in line (+0.3%) with the 2007 net result. Should we adjust Net Profit for the 2007 one-off savings from the "imposta sostitutiva", adjusted net profit increase would have amounted to 16.1%.

2008 EBITDA BREAKDOWN



- ⇒ **DISTRIBUTED DIVIDEND FY07:** 8 cts.
- ⇒ **PROPOSED DIVIDEND FY08:** 8 cts.
- ⇒ **DATE OF APPROVAL FOR AGM:** 27th-28th APRIL, 2009
- ⇒ **DATE OF SHARE-OUT:** June 1st, 2009
- ⇒ **DATE OF PAYMENT:** 4th June 2009

EBITDA	2007	2008	Change
Waste	156.3	186.3	19.19%
Water	118.5	130.2	9.87%
Gas	104.7	127.8	22.06%
Energy	42.7	51.4	20.37%
Other	31.3	32.6	4.15%
TOTAL	453.5	528.3	16.49%

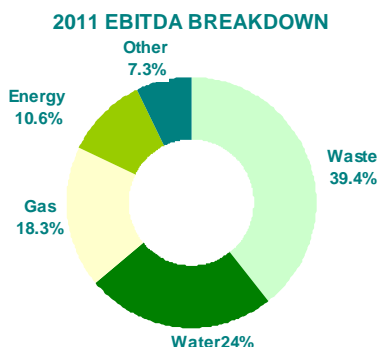
Gas sector - which weighs for a 24.2% vs. 23.1% in FY07 in terms of EBITDA breakdown - mirrors the mentioned upturn in sales thanks to higher temperatures and at the same time the expansion in the client base.

Even **Energy** widens its weight (9.7% vs. 9.4% in FY07) thanks to a volume rise which has been made possible, from the demand side, by the 300,000 clients achieved and,

from the production side, by the full contribution of the two new operating CCGT plants in Teverola and in Sparanise.

Water and Waste represent the most relevant sector stake of consolidated EBITDA, with an overall weight of 60%.

Strategic Plan 2009-2011



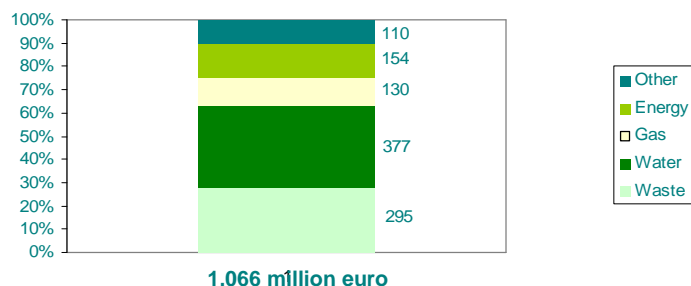
In 2011 Hera's portfolio will be 60% in regulated businesses and 40% in liberalised ones

million euro	M&A	Synergies and organic growth	New plants
2002-08 Avg. Growth	22	25	9
2009-11 Avg. Growth		25	22

In particular new synergies and organic growth will be led by:

1. The increase in Special Waste treatment
2. The increase in tariffs already achieved
3. A block in HC turnover
4. Efficiency gains.

BREAKDOWN OF 2009-11 CAPEX



The new strategic plan indicates a **27% EBITDA growth in 2011 vs. 2008**. Such an improvement in operating profitability - which by the way does not take into account any potential contribution from new M&A activities - will be driven by a **growth in every single business area** in Hera's portfolio.

Growth will be led by factors which present a high visibility, as the table on the left shows.



60% of total investments will be maintenance capex and 40% development capex.

Hera will build two further WTE plants (ca.20 MW) and a new CCGT one, while continuing to expand water and gas and remote control networks and focusing on plants in the 'renewables' area.

2011 TARGETS

REVENUES 4,336 MN (+4.6% CAGR)

EBITDA 670 MN (+8.2% CAGR)

EBIT 410 MN (+13.4% CAGR)

INVESTMENTS 2009-11 1,066 MN

	2008	2011 E
Net Invested Capital (MN)	3,151	3,466
ROI (%)	8.9	11.8
ROE (%)	7.0	11.1
D/E (x)	1.00	0.95
D/EBITDA (X)	3.0	2.5



Further steps in strengthening upstream capacity HERA PURCHASES A 32% STAKE IN TAMARETE

On the 17th December 2008 Hera bought a 32% stake in Tamarete Energia, a company based in the Chieti province. Tamarete presents a 5.5MW generation capacity and - what is even more attractive - in 2010 will complete a 104 MW CCGT plant investment already underway, for a total amount of 90 million euro.

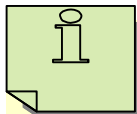
Hera caught the opportunity of further strengthening its upstream capacity, which has recently benefited as well from the start of the operations of the 80 MW CCGT plant in Imola, close to Bologna.

Hera è sesta nel webranking italiano e in quello europeo di settore

European Energy Webranking	Italy Top 10 Companies
1 Eni	1 Eni
2 Neste Oil	2 UniCredit Group
3 Fortum	3 Telecom Italia
4 Edison	4 Edison
5 Repsol YPF	5 Pirelli&C
6 Hera	6 Hera
7 Snam Rete Gas	7 Snam Rete Gas
8 RWE	8 Assicurazioni Generali
9 E.ON	9 UBI Banca
10 StatoilHydro	10 Autogrill

In late 2008 Hallvarsson&Hallvarsson has analysed corporate and financial online communications of the main European listed companies. Please see on the left new webranking results.

Among European energy companies Hera ranks sixth, like in 2007, but improving the score achieved. Hera positioning is better than the one of large caps enjoining high reputation in terms of communications, as the case of E.ON, ranking ninth, proves.



CONTACTS

Head of Investor Relations

Jens K. Hansen
T.+39 051 287737

jens.hansen@gruppohera.it

2009 FINANCIAL CALENDAR

26th March

Board Meeting to approve FY08 results

27th-28th April

Annual General Meeting of Shareholders to approve FY08 results

14th May

Board Meeting to approve first quarter 2009 results

27th August

Board Meeting to approve semi-annual 2009 results

12th November

Board Meeting to approve third quarter 2009 results

II TITOLO HERA

Price as of 26th March 2009: 1.3 €

Low-High 365 dd: 1.09-2.82 €

N. outstanding shares:

1,032,737,702

Mkt Cap: 1.69 bn €

Specialist: Banca IMI

Consensus target price (source Thomson Reuters): 2.6 €

The Hera share is a component of the following indices

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 will be released on 14th May, 2009

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



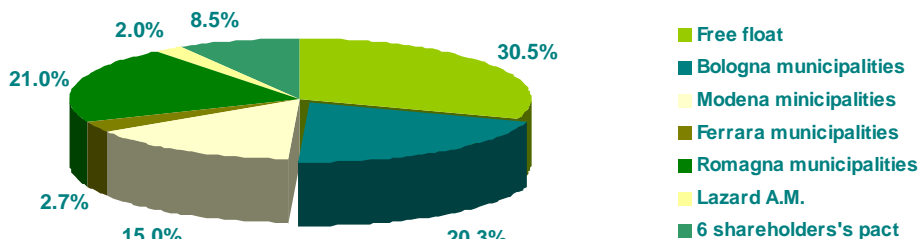
Source: Thomson Reuters



Over the last three months the Hera stock price experienced sizeable movements - from a high of 1.66€ on the 2nd January the price has fallen down to a low of 1.09€ on the 12th March. The chart on the right shows that the Hera's price performance was not that different from the all-share index one - so proving that the present crisis impacts are spread throughout the whole market, while actual corporate fundamentals do not significantly matter.

Main Shareholders and Analyst Coverage

MAIN SHAREHOLDERS



The 8,5% holding 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.

While most broker are cutting the number of companies followed, Hera has widened the analyst coverage: since the last issue of this newsletter Unicredit on 13th January 2009 initiated its coverage on the stock with a target price of 2.0€ and a Buy rating, making Hera one of their Best Picks (favoured stocks).

On the back of present consensus target price (2.55€) the stock shows an upside potential of roughly 50%.

Broker	Target price €	Recommendation
Banca Akros	2.8	Buy
Banca IMI	2.6	Buy
Banca Leonardo	2.1	Buy
CAI Cheuvreux	2.2	Outperform
Centrobanca	2.4	Neutral
Cazenove	3.0	Outperform
Citigroup	3.5	Buy
Dresdner Kleinwort	3.1	Buy
Equita	2.6	Buy
Exane	2.0	Outperform
Intermonte	1.9	Outperform
Kepler	1.9	Reduce
Mediobanca	3.0	Outperform
Merrill Lynch	2.8	Buy
Santander	2.9	Buy
Unicredit	2.0	Buy
Average	2.55	

We await your comments on our newsletter. Please send them to: ir@gruppohera.it

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