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2011 results - a milestone in 10 years of Annual Reports featuring continuous growth



THE PROPOSED DIVIDEND, EQUAL TO 9 CENTS PER SHARE, REPRESENTS AN 8.2% YIELD TAKING INTO ACCOUNT THE 2011 YEAR-END SHARE PRICE.

Dear Shareholders, the end of 2011 not only allows us to evaluate results achieved in the last fiscal year, but – provided that the one of 2011 is the tenth annual report in Hera's history - it also makes possible to draw some conclusions from a long-term perspective.

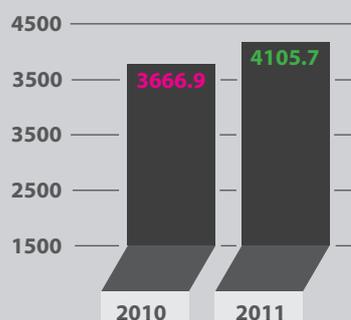
In November 2002, thanks to the merger of 11 municipalities, Hera was established; a new player ready for the IPO, which actually took place in June 2003. The same features that differentiated us, at the time, from the rest of the industry remained the strategic pillars of our growth path. I mean the long-term orientation - which led any investment decision - and the risk aversion - which drove us to look for a balance between regulated and liberalised activities – as well as the vocation for a continuous and linear development, combining intensive M&A deals with actual synergies gained from integrations, in parallel with organic growth. In achieving larger sizes, while deeply integrating merged companies, we have never stopped cultivating strong relationships with our territory; even the choice of a multi-business portfolio - which allowed us to keep risk profile under control, thanks to diversification, and to increase EBITDA every year - was a priority we have identified since the very beginning, with the aim of gaining the loyalty of our customer-basis through an integrated service offer. On page 3 of this newsletter you can find metrics that show how sizeable the improvements achieved over the ten-year period were. Here we intend to share with you the awareness that Hera's strategy, leveraging

on an effective business model, is nowadays an even stronger strategy, since it proved to be successful not only in challenging scenarios, but also in critical ones. Looking back at 2002, we realize that today we can rely on a critical mass allowing us to profitably compete in any business; moreover we have left the peak of investments behind, while we generate cashflow in excess of the needs for funding new investments.

Such healthy picture is confirmed even by the year 2011 financial results - presenting a 6.2% EBITDA increase - which allow us to propose the distribution of a dividend per share of 9 cents, unchanged vs. 2010, despite the bottom line performance was negatively influenced by the higher tax rate due to the Robin Tax. The 9 cent dividend provides our shareholders with an 8.2% yield, taking into account the year-end price.

Tomaso Tommasi di Vignano

Revenues m€



Ebitda m€



Year 2011 financial results prove that Hera can take, year after year, new steps along its path of profitable growth, notwithstanding the external environment continues to be hard



FISCAL YEAR 2011

(figures in million euro)

REVENUES
4,105.7 (+12.0%)
EBITDA
644.8 (+6.2%)
EBIT
334.5 (+6.1%)
INVESTMENTS
324.9
(100% CAPEX)
NET FINANCIAL DEBT
1,534.7 (-1.8%)

Focus on year 2011 financial results

/// Group EBITDA continues to grow (+6.2%) even in a fiscal year affected by weak economic environment and strong increases in the price of the gas commodity.

The 2011 results presents, if compared to the 2010 ones, an improvement in all the main P&L indicators, excepted for the bottom line, which declines by 10.8%. Actually in 2010 net profit benefited from non-recurring positive impacts on taxes of 25.1 million euro – therefore on a like-for-like basis even the bottom line would have

presented an improvement.

In 2011 revenues increase by 12.0%, exceeding 4.1 billion euro, driven in particular by a good performance of Gas sales and distribution revenues, mirroring an increase both in volumes and in prices, as well as by the higher power generation in the Waste business area. EBITDA reaches 644.8 million, with a growth rate lower (+6.2%) than the one of revenues, due to the higher prices of the gas commodity and to the larger weight of Electric Energy, whose contribution to Group EBITDA jumps from 9.8% to 11.4%. EBIT shows a 6.1% increase as well, despite the cautious provisioning for doubtful debts and

the increase in depreciation linked to the new WTE plants.

Pre-tax profit, improving by 7.6% and reaching 221.2 million, reflects a net financial debt under control and the effective management of the financial area in times of strongly widening spreads.

Net profit is equal to 126.8 million euro, falling by 15.3 million compared to 2010, since taxes rise from 63.6 to 94.5 million, with a tax rate reaching the 42.7% level, both because positive 2010 fiscal impacts stopped and due to the recent rise in IRES (Robin Tax) and IRAP. Net profit adjusted by non-recurring fiscal items on the contrary increases by 5.3%.

KWD Italian Webranking: Hera awarded for the third time in a row

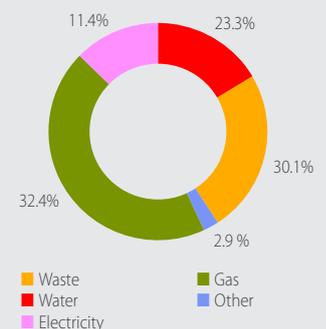
By scoring 85.5, Hera has ranked third in the KWD Italian webranking that evaluates the quality of online communications of listed companies through the analysis of their corporate websites. Hera placed itself close to Eni (scoring 87) and to Telecom Italia (scoring 89), respectively ranking second and first even in the European webranking. With great satisfaction Hera could prove, thanks to the results of its commitment in online communications, to be able to compete with some blue chips, considered to be best practices even on the international scene.

Electricity is the area achieving the highest EBITDA increase (+22.5%) vs. 2010, rising its weight on the consolidated item from the previous 9.8% to 11.4%; a performance driven by the sharp growth in volumes sold (+29.1%), thanks to an effective marketing activity and to the newly-gained customers for the default-provider service (+99,000 new supply points).

In the **Gas** business, the 7.6% growth reflects on one hand the benefits from the incorporation of Sadori Gas into Hera Comm Marche, on the other hand the negative effects on volumes of temperatures that were on average higher than the ones experienced in 2010 and of higher commodity prices as well. The negligible decline (-0.5%) in the EBITDA of the **Waste** business mirrors the negative impact of crisis on production levels and on consumptions in Italy; an impact that however has been limited, with a decrease in demand

volumes of just 2.6 percentage points, even thanks to the rise in power generation (waste treated actually rose by 15.3%). Lastly, in the **Water** business, EBITA improves by 5.8%, led by a 3% growth in revenues and thanks to the gain of new efficiencies in operating expenses.

FY 2011 EBITDA Breakdown



EBITDA

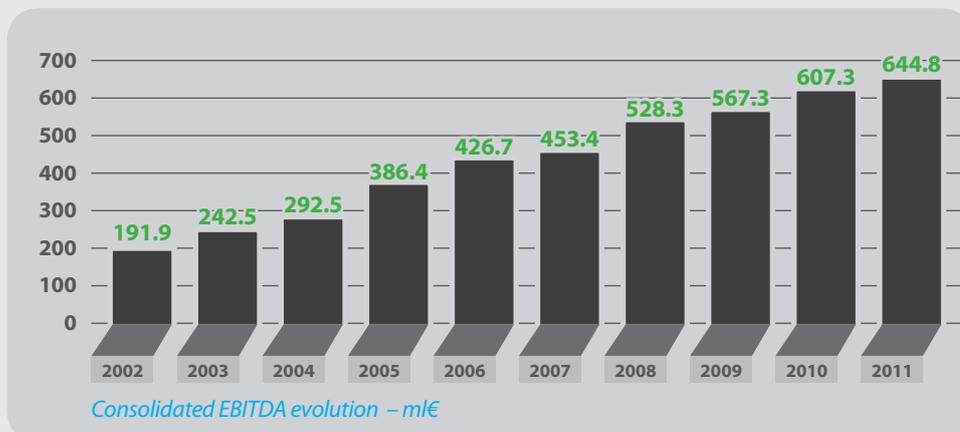
m€	FY 2010	FY 2011	Change
Waste	195.1	194.2	-0.5%
Water	142.0	150.2	5.8%
Gas	193.9	208.7	7.6%
Electricity	59.8	73.2	22.5%
Other	16.4	18.5	12.8%
TOTAL	607.3	644.8	6.2%

Hera: 10 years of Annual Reports

/// An opportunity to look back with pride at the growth achieved. Even an opportunity to understand the reasons behind the growth and to face the future with the awareness of relying on solid grounds

A cumulated EBITDA growth of 453 million euro, driven by organic components, which benefited from the essential contribution of M&A deals

Over the last 10 years EBITDA achieved a sustained compound average growth, to the extent of 14.4% on a yearly basis. A significant growth path, not only in terms of absolute increase (+453 million euro), but even continuous, without any pause, led approximately by two thirds by organic growth (299 million euro), thanks to extracted synergies and to newly-built plants, and, by the remaining one-third (154 million), driven by the growth by external lines, through several M&A deals closed.



THE 10-YEAR PERSPECTIVE, INCLUDING THE 2011 PERFORMANCE ITSELF, PROVES THE EFFECTIVENESS OF A BUSINESS MODEL BASED ON THE BALANCE BETWEEN REGULATED AND LIBERALISED BUSINESSES, COMBINING THE CONTRIBUTION OF BOTH ORGANIC GROWTH AND M&A.

Regularity of the EBITDA growth made possible by the multi-business approach

The effectiveness of the multi-business structure of Hera's portfolio is clearly proven by the contribution that each single area has provided to the growth that consolidated EBITDA showed over time, thanks to the well-balanced presence of regulated and liberalised activities; such structural diversification, making Hera a true multi-utility, has allowed consolidated results to benefit from the compensation of different exogenous factors (such as weather conditions, dynamics of commodity prices or GDP growth rate), while ensuring continuity to the growth of consolidated EBITDA.

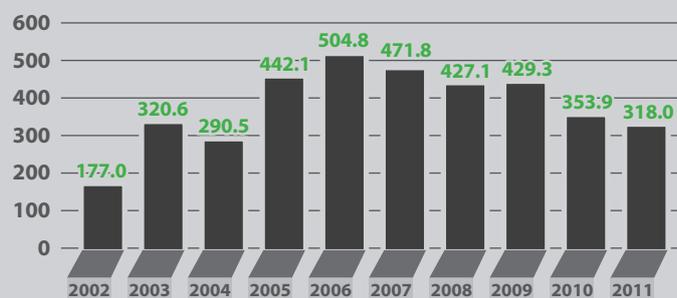
Contribution by business to the growth of consolidated EBITDA – m€



The ambitious investment plan carried out guarantees visible cashflow even for the future

Such premise, together with the financial solidity that Hera today can boast, makes the distribution of attractive dividends sustainable over time. Over the past 10 years cumulated investments amounted to 3.74 billion euro; a demanding plan, which absorbed over 86% of the EBITDA generated over the same period; a plan, anyway, that two years ago left behind its peaks, which exceeded 400 million per year in the 2005-2009 period. Thanks to its past investment strategy, at present Hera enjoys a cashflow generation exceeding the needs for funding new investments: a good premise to reduce the "Net Debt-to-EBITDA" ratio as well as to ensure sustainability over time both to the solidity of the financial structure and to the attractiveness of shareholder remuneration.

Investments' evolution – m€



DPS evolution – € cents



OVER THE LAST 10 YEARS HERA HAS ALWAYS POSTED NET EARNINGS AT BOTTOM LINE AND DISTRIBUTED DIVIDENDS EVERY YEAR. THE COMPOUND AVERAGE GROWTH RATE OF THE DIVIDEND PER SHARE HAS BEEN EQUAL TO 11.1%.

Hera share

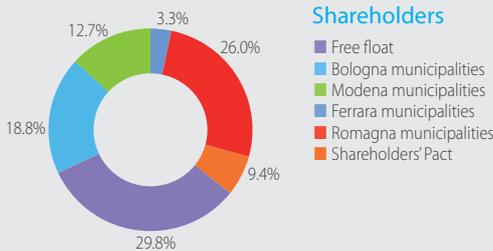
Price as of 21 March 2012: **1.07 €**
 Low-High 365 dd: **0.97-1.77 €**
 No. outstanding shares: **1,115,013,754**
 Mkt. Cap.: **1.2 bn €**

Specialist: **Merrill Lynch**

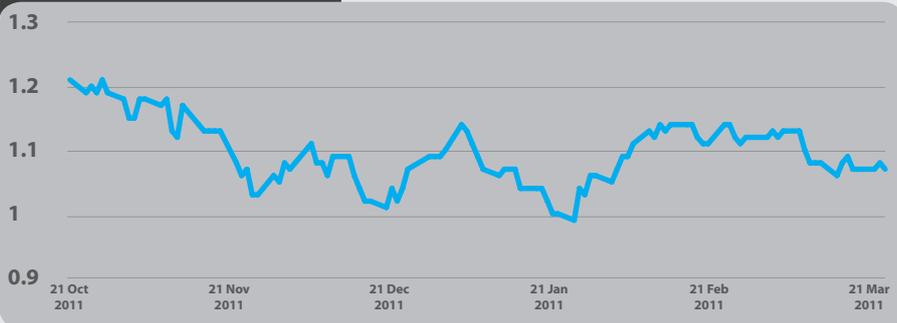
Consensus target price: **1.48 €**
 (source: broker research)

Hera's stock index membership

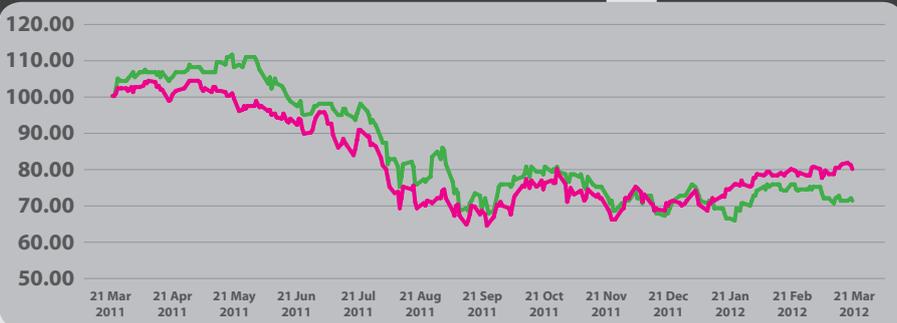
**FTSE Italia Mid Cap / DowJones Stoxx TMI
 TMI Utility / Axia Ethical / Kempen/SNS Smaller
 Europe SRI Index / Dow Jones Stoxx 600**



6-month absolute performance



12-month performance - Hera vs. FTSE Italia All-share Index



The absolute performance of Hera's share over the last six months indicates that the price moved inside the 1.0-1.5 range since the issue of the last newsletter, i.e. after the release of nine-month 2011 results (on 11 November) until now. The 12-month comparison with the Italian stock market index, the FTSE Italia All-share, points out that Hera's price actually outperformed the index till November 2011. Since January 2012 the situation reversed: the FTSE All-share index showed an uptrend led by the rise of stocks of the banking sector, which have a sizeable weight in the Italian stock market index, and by the good performance of stocks that had released their annual results in the first part of March, exceeding market expectations.

ANALYST COVERAGE

The consensus target price declined from 1.65 to 1.48, if compared to the last issue of this newsletter, reflecting the higher country-risk perception when investing in Italy; a risk that analysts incorporated in their valuation models; notwithstanding that reduction, the 1.48 euro target price continues to indicate a huge revaluation potential, around 35%, considering recent stock prices. In light of such a sizeable undervaluation, most brokers suggest to buy the stock, with just two exceptions, Centrobanca and Mediobanca, which in any case have neutral ratings. Hera is furthermore among the "Top Picks" (selection of favourite stocks) of two brokers - Banca Imi and Chevreux.

Broker	Target price €	Rating	Broker	Target price €	Rating
Banca Akros	1.4	Buy	Equita	1.5	Buy
Banca Aletti	1.4	Outperform	Exane BNP Paribas	1.5	Outperform
Banca IMI	1.2	Add	Intermonte	1.4	Outperform
CAI Cheuvreux	1.6	Outperform	Kepler	1.9	Buy
Centrobanca	1.4	Hold	Mediobanca	1.3	Neutral
Deutsche Bank	1.8	Buy	Average	1.48	

21 March 2012

22 March
 BoD for the approval of FY2011 results

15 May
 BoD for the approval of Q1 2012 results

27 April
 Annual Shareholders' Meeting

28 August
 BoD for the approval of H1 2012 results

13 November
 BoD for the approval of 9M 2012 results



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