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## First half 2011: EBITDA driven by deregulated businesses

Dear Shareholders, the first half of 2011 presents an increase both at revenue and at EBITDA level that is close to 10% and an even larger improvement in net profit (+20.2%). These results prove that our strategy was effective, both in terms of decisions and of execution; in spite of an extremely hard external scenario, Hera's interim results indicate that we are on track with the 2010-2014 Business Plan and that we are likely achieving the targeted EBITDA growth in slight advance. Even in the turmoil that affected equity markets in recent months – our stock performance as well could not avoid them – we remain confident about the health of Hera's fundamentals and about the achievability of the commitments to our shareholders. The first six months of 2011 showed very encouraging results in liberalised activities, where Hera strongly and successfully competes with major operators – on one hand we have exceeded the threshold of 1.1 million gas customers, while on the other hand, in the Electricity segment, we have achieved 453,500 clients (adding some 100,000 customers to the figure as at 30 June 2010). Volumes have been negatively affected by the crisis and, specifically in the Gas business, even by mild temperatures; nonetheless, successful commercial activities, together with the acquisition of new energy protection service customers, allowed Hera to continue its restless growth. All segments of Hera's portfolio provided a positive contribution, but Gas and Electricity represent the two areas that drove the increase in Group

*Deregulated activities generated over 70% of the overall growth – equal to 30.5 million euro – in consolidated EBITDA.*

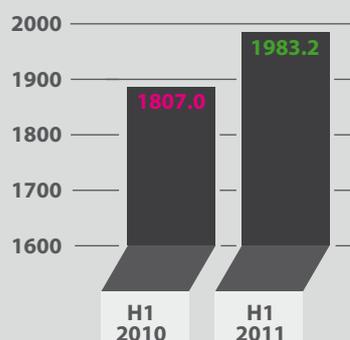
EBITDA, thanks respectively to a 10.3% rise in Gas EBITDA and to a 32.9% rise in Electricity EBITDA. Good margins in regulated businesses reflect tariff adjustments achieved on the back of services provided and of investments, while, in deregulated businesses, margins also benefited from effective procurement policies. The contribution from deregulated activities proved to be crucial, provided that it generated over 70% of the overall growth – equal to 30.5 million euro – in consolidated EBITDA. Lastly in the first half, in addition to the strong operating performance we also experienced sound results in the financial area, thanks to a net debt remaining under control. Therefore, despite external turmoil, we have good reasons why we remain focused on the execution of our Plan and stay confident about our future growth path.

**Tomaso Tommasi di Vignano**



**HERA FUNDAMENTALS REMAIN SOLID: DESPITE THE NEGATIVE EXTERNAL ENVIRONMENT, TARGETS VISIBILITY CONTINUES TO IMPROVE, EVEN IN LIGHT OF SEMI-ANNUAL RESULTS**

Revenues



Ebitda





## FIRST HALF 2011

(figures in million euro)

## REVENUES

1,983.2 (+9.8%)

## EBITDA

344.0 (+9.7%)

## EBIT

199.4 (+14.1%)

## INVESTMENTS

138.8  
(of which 133 capex)

## NET FINANCIAL DEBT

1,971.1

## Focus on first half 2011 results

/// Crisis continues, but Hera's interim results present strong growth, starting from headline (+9.8%), down to net profit (+20.2%).

/// The solid Group's operating performance mirrors the effective business strategies, with particularly strong dynamics in Electricity and Gas.

/// Even the financial area results contribute to the higher Group's profitability.

In the first six months of 2011 consolidated revenues reached 1983.2 million euro, increasing by 9.8% over the first half of 2010. The improvement has been led by higher sold and distributed volumes in Electricity, by the growth in gas revenues and, in the Waste segment, by higher power generation from waste boosting the segment turnover.

All business in Hera's portfolio provided a positive contribution to the Group's EBITDA growth (+9.7%), which proved to be in line with headline growth, notwithstanding the increase in raw materials and consumables of 85.6 million, linked to higher

volumes of electricity sold and to higher gas commodity prices.

Thanks to a lower weight on revenues of depreciation and provisions (from 7.7% of 2010 first half to 7.3%), EBIT shows an even higher growth (+14.1%) than EBITDA.

Good performance in the financial management area, with net financial charges declining of 1.3 million, thanks to a net financial debt unchanged vs. the one at 30 June 2010 (1.97 billion), paves the way for a Pre-tax Profit increase by 21.5%.

Despite the rise in tax-rate due to a higher Irap rate, net profit reaches 83.2 million, with a 20.2% growth.

*The analysis of the different business areas points out the strong performance of **Electricity**, which increases its weight on consolidated EBITDA from 10.1% for the first half 2010 to 12.3%. Volumes of electricity sold grew by 29.8%, thanks to effective commercial activities and to the acquisition of over 100,000 new supply points for protection service customers, which Hera gained for the 2011-2013 three-year period, spread over 6 different regions. Even the **Gas** area proved to be healthy, increasing*

*its EBITDA by 10.3%, notwithstanding the decline in distributed volumes (-8.4%) due to temperatures on average higher than in the first half of 2010, thanks to higher revenues from distribution, to the sizeable expansion (+36.5%) of traded volumes and to the improvement of margins in gas sales, linked to the favourable procurement contracts.*

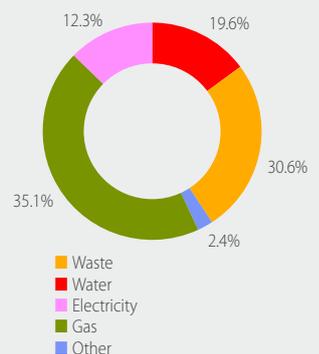
*The **Waste** segment rises its EBITDA by 8.3%, despite a fall in volumes of urban waste (-2.9%), due to the crisis, and thanks to the 0.9% growth in market waste, mirroring the availability of new WTE plants fully operating in 2011 and the achievements of an intensive commercial activity. Lastly, the **Water** business presents an EBITDA in line with the one of the first half of 2010, thanks to efficiency gains, while volumes of water supplied were flat and sewerage (-1.3%) and purification (-1.5%) volumes slightly declined.*

**EBITDA - VERY STRONG GROWTH IN ELECTRIC ENERGY (+32.9%) AND IN GAS (+10.3%)**

## EBITDA

€ mn	H1 2010	H1 2011	Change
Waste	97.1	105.2	8.3%
Water	67.5	67.5	0.0%
Gas	109.3	120.6	10.3%
Electricity	31.8	42.2	32.9%
Other	7.8	8.4	7.7%
<b>TOTAL</b>	<b>313.5</b>	<b>344.0</b>	<b>9.7%</b>

H1 2011 EBITDA Breakdown



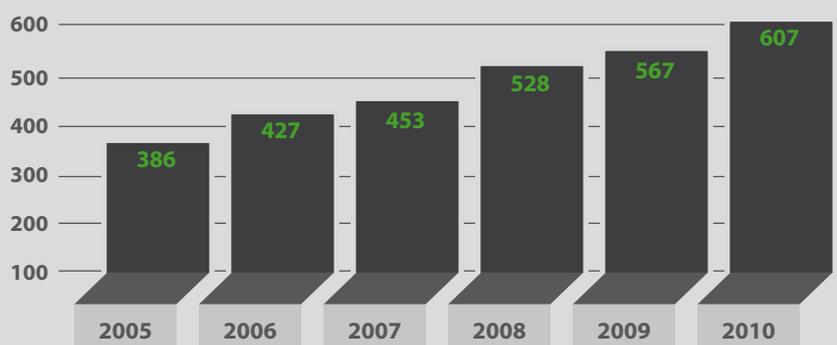
# Hera: relying on solid fundamentals

/// Economic and financial crisis continues to dominate the external environment. The higher risk premium, which contributed to generate the equity market crash, in recent months affected the Hera stock price performance as well. We need to take stock of the situation – at current prices, does Hera's share incorporates a growth profile that has been jeopardized by the economic crisis? Fundamentals have much to say about this.

As Mr. Tomasi stated in his Chairman message at page 1, Hera's results, included the last ones, prove that the Company is well on track with its business plan. The strong cash flow generation, which allows to forecast a well-balanced development of debt, would pave the way for a growing shareholder remuneration over time; hence the management commitment to enhance the already solid financial structure and to increase investor remuneration through dividends. Is the equity market discounting negative results or a worsening in the visibility of future targets?

If we widen the horizon of our analysis to the last six years – out of which the three most recent ones dominated by economic and financial crisis – we can observe that the development of Hera's fundamentals actually reflect continuous growth and consistency with targets. The charts that we present meaningfully reflects that the recent share price performance has no comparison with the Group's results, starting from the continuous increase in EBITDA – the most effective indicator synthesizing the operating performance of the Group – that in the first half has even recorded an improvement of over 30 million.

EBITDA (mn €)



*A similar indication stems from the analysis of the dividend dynamics over these external crisis years. Left behind the peak of investments in 2010, the dividend grew by 12.5%. At recent prices, on the back of the 2010 dividend of 9 cents, the dividend yield is close to 8%.*

Dividend per share (€)



TO TAKE INTO ACCOUNT THE TRACK RECORD PROVIDED BY HERA'S FUNDAMENTALS STARTING FROM 2005, WITH THE LAST THREE YEARS CHARACTERIZED BY A DEEP CRISIS, CAN REPRESENT AN EFFECTIVE BENCHMARK TO PROPERLY EVALUATE THE SHARE

## Sadori Merger: Hera gets stronger in gas sales in the Marche region

/// The merger, announced on 14 April 2011, thanks to the portfolio of 34,000 customers of Sadori Gas, makes Hera the co-leader in gas sales in the Marche region, with over 20,000 served customers

Starting from 1 July 2011, the merger through incorporation of Sadori Gas – company operating in gas sale in 42 municipalities in Marche and Abruzzi – into Hera Comm Marche is effective.

Following to the transaction, Hera Comm Marche share capital is 57.4% controlled by Hera Comm, another 9.5% by Marche Multiservizi and the remaining 13.1% by the Walter Sadori srl.



# Hera share

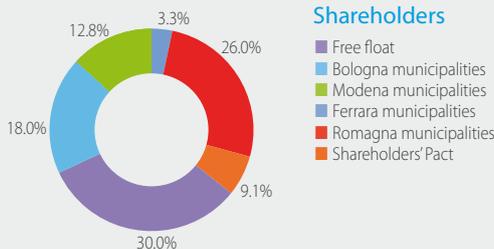
Price as of 24 Aug 2011: **1.16 €**  
 High-Low 365 dd: **1.13-1.76 €**  
 No. outstanding shares: **1,115,013,754**  
 Mkt. Cap.: **1.29 bn €**

Specialist: **Merrill Lynch**

Consensus target price **1.88 €**  
 (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**



*Hera share holding structure does not present significant changes as regards the stakes exceeding 2% of share capital.*

## 6-month absolute performance



## Performance Hera vs. FTSE Italia All-share Index



After the issue of the last newsletter (12 May 2011), when first quarter results were released, the Hera share price reached a period-high of 1.76 € on 30 May; then it sharply declined to a bottom of 1.13 € on 10 August. The correction movement, fuelled by the worries in financial markets for the critical situation of European sovereign debts, accelerated when the Italian 'water' privatisation referendum became a certainty (it actually took place on 12-13 June). While financial markets were further collapsing, with concerns widened to the USA debt, the downtrend of the Hera's share led the price to even lower levels – a movement showing no correlation with the solid fundamentals of the Company. Even recording a negative absolute performance, the Hera's share continued to outperform the Italian All-share Index, as you can see from the charts with the relative 1-year performance.

## ANALYST COVERAGE

The consensus of brokers covering Hera continues to provide a very positive picture, as proven by the 10 buying recommendations (Buy, Outperform or Add) and by the 3 neutral ones (Hold, Neutral). No broker suggests to sell the stock. Hera could already boast a wide and high-profile analyst coverage; starting from July, anyhow, Hera can count even on the presence of another Pan-European broker, Exane BNP Paribas. They initiated the coverage with an Outperform rating. The average target price of the 13 analysts is equal to 1.88 € - a level indicating a potential revaluation of more than 60% compared with recent share prices.

Broker	Target price €	Rating	Broker	Target price €	Rating
Banca Akros	2.3	Buy	Exane BNP Paribas	1.7	Outperform
Banca IMI	1.4	Add	Intermonte	1.6	Neutral
Banca Leonardo	2.0	Buy	Kepler	1.9	Buy
CAI Cheuvreux	2.0	Outperform	Mediobanca	2.0	Outperform
Centrobanca	1.8	Hold	Merrill Lynch	1.8	Buy
Deutsche Bank	2.3	Buy	Unicredit	1.9	Buy
Equita	1.8	Hold	<b>Average 13 brokers</b>	<b>1.88</b>	

24 august 2011

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The next issue of this newsletter will be on 10 November 2011

**HeraNews**  
 Managed by  
 Jens K. Hansen  
 Concept and editorial contents  
 Blue Arrow, Milan  
 Graphics  
 moma Studio, Milan

