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2010 results: strong organic growth

Dear Shareholders, 2010 results allow us to propose the distribution of the highest dividend per share in Hera's history, equal to 9 cents, up 12.5% over 2009. Such performance is very satisfactory, with net profit before minorities increasing by 42% up to 142 million euro. The consolidate P&L furthermore does not present the effects of the 50 million euro capital gains stemming from the 25% sale of Herambiente capital, since the item has been valued according to the equity method. The bottom line fully reflects the 7.1% improvement at EBITDA, which reaches 607.3 million: an increase of 40 million euro led by endogenous drivers, linked to organic growth and contribution from new plants. All main businesses of our well-balanced portfolio bettered their operating performance; anyhow, 70% of the organic growth of 2010 consolidated EBITDA stems from energy businesses (namely sales and trading of gas and electricity): in a scenario presenting weak prices of the commodities, we have successfully tested the effectiveness of the 'upstream' structure that we have built over time; we have also realized how rewarding a flexible and conservative policy of procurement can prove to be. Our generous policy in terms of shareholder

FY 2010 performance makes strategic plan targets even more visible.

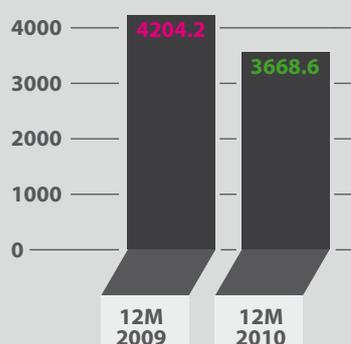
remuneration is therefore backed by solid results, based on our structural capabilities in terms of organic growth; these results were achieved maintaining a controlled risk profile. Such performance makes strategic plan's targets even more visible. Fiscal year 2010 was also important from the perspective of the financial management area. First of all, thanks to the positive cashflow generation, and being Hera over the investment peak, net financial debt could decrease. Furthermore, thanks to the sale of the 25% stake of Herambiente and to the 140 million euro cashed-in from the new bond issue, Hera succeeded in securing crucial resources to catch future growth opportunity that may arise from M&A activities.

Tomaso Tommasi di Vignano



**THE 9 CENT
DIVIDEND STEMS
FROM SOLID
RESULTS, BASED
ON ORGANIC
GROWTH AND
FEATURING A LOW
RISK PROFILE**

Revenues € mn



Ebitda € mn





HIGHLIGHTS

(figures in million euro)

REVENUES
3,668.6 (-12.7%)
EBITDA
607.3 (+7.1%)
EBIT
315.4 (+8.3%)
INVESTMENTS
353.9
(O/W 345.8 OPERATING)
NET FINANCIAL DEBT
1,860.2

Focus on fiscal year 2010 results

/// Sustained volume dynamics and better EBITA margin in all main areas of business drive the 7.1% growth in Group's EBITDA.

/// EBIT increases by 8.3%.

/// Net profit improves by 67.2%.

FY 2010 revenues declining by 12.7% over 2009 discount the decrease in electricity trading and the effects of the fall in the commodity price on the value of methane gas sales. The good dynamics of volumes recorded in all business areas, except for Water, have substantially limited the impact of such negatives. In spite of the unavoidable decline at headline level, EBITDA grows by 7.1%, reaching 607.3 million euro. EBITDA margin, increasing from 13.5% in 2009 to 16.6%, reflects the improved operating profitability of all main areas of business of the Group. EBIT increases by 8.3%. Pre-tax profit improves by 26.7%, thanks to

the 3.6 million decline in net financial charges. Net profit therefore posts a sizeable improvement (67.2%), reaching the record high of 142.1 million euro.

EBITDA MARGIN IMPROVES FROM 13.5 TO 16.6% THANKS TO THE POSITIVE CONTRIBUTION OF ALL MAIN AREAS OF BUSINESS OF THE GROUP

Volumes

	12M 2009	12M 2010	Change
Power generation (GWh)	7047.4	7744.0	9.9%
Gas distribution (mn m3)	2334.4	2504.1	7.3%
Gas trading (mn m3)	627.9	721.8	15.0%
Heat (GWh)	476.4	534.5	12.2%
Urban waste (000 t)	1793.9	1864.1	3.9%
Waste from mkt (000 t)	1530.8	1608.5	5.1%
Waste treated by plants (000 t)	5114.8	5703.1	11.5%
Acqueducts (mn m3)	256.6	250.8	-2.3%

MOL

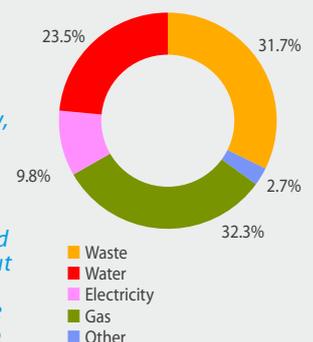
€ mn	12M 2009	12M 2010	Change
Waste	187.3	192.6	2.8%
Water	131.4	142.5	8.4%
Gas	174.4	195.9	12.3%
Electricity	53.0	59.8	12.8%
Other	21.1	16.4	-22.3%
TOTAL	567.3	607.3	7.1%

All business areas present a higher EBITDA than in 2009, except for the segment Other Services, which is under rationalization. The Gas business increases its contribution to consolidated EBITDA from 30.8% to 32.3%: the negative impact on revenues of the fall of the commodity has been wiped off by higher sold and distributed volumes as well as by the contribution from new cogeneration plant in Imola. Waste EBITDA benefits from the increase in volumes; it also reflects increased

treatments based both on WTE generation and on recycling processes. In the Water business, notwithstanding the fall in volumes due to a rainy summer, EBITDA grows thanks to the continuous attention to efficiency and to the tariff adjustments achieved on the back of wider provided services and of the linked investments. Lastly, in the Electricity business EBITDA improves, not only driven by the rise in volumes sold and distributed, but also thanks to the ability to guess the operating scenario

in trading activities: that allowed Hera to execute a procurement campaign which proved to be advantageous.

FY 2010 Ebitda breakdown



Dividend per share of 9 cents

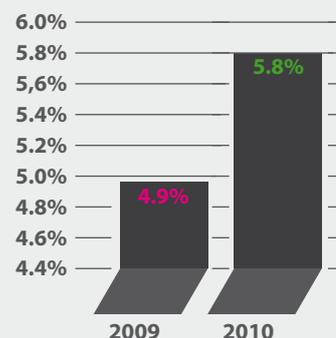
/// A 12.5% increase over the 2009 dividend

Hera's BoD will propose to the Shareholders' Meeting that will take place on the 29 April 2011 to resolve upon the distribution of a 9 cents dividend per share, up by 12.5% over 2009. Such a dividend represents a **5.8% yield**, calculating the ratio with the Hera's stock price as of 31 December 2010. **The stock price will trade ex-dividend on 7 June 2011. Dividends will be paid on 10 June 2011.**

Dividend per share (€)



Dividend yield %



Tomaso Tommasi di Vignano received the 'utility manager of the year' award

/// Hera was appreciated for its well-balanced and continuous growth over time

Consolidated ebitda evolution (mn €)



On 17 February 2011 Hera's Chairman received the award "Utility Manager of 2010" for the Waste sector. The magazine "Management delle Utilities", promoting the initiative headed by Professor Andrea Gilardoni, teacher of Economics and Management at the Bocconi

University in Milan (with Mr. Tommasi, Hera's Chairman, in the picture) meant to award the "well-balanced and continuous growth at Hera, the Italian leading company in the waste businesses"; an evolution clearly proven by the bar chart, presenting the EBITDA evolution since listing up to date.



Growth by external lines continues

/// Signed the agreement with Acam, the multiutility of La Spezia, setting out the route map for the future integration into Hera

The agreement, signed on 19 November 2011, sets out a progressive integration route, envisaging in particular the achievement of an agreement with the banks about debt restructuring and industrial reorganisation at Acam; it also involves the spin-off of the water management assets and of the CDR plant (Refuse Derivative Fuel) in Saliceti.

Submitted to the execution of the financial and operating targets, within the first half of 2011 Hera will purchase a stake in between 45 and 49% of Acam share capital, underwriting a reserved capital increase. Within 2012, again submitted to the achievement of further targets linked to the business plan, Acam will be merged into Hera through incorporation.



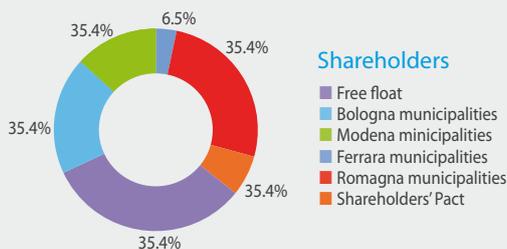
Hera share

Price as of 23 March 2011: **1.6 €**
 High-Low 365 dd: **1.3-1.7 €**
 No. outstanding shares: **1,115,013,754**
 Mkt. Cap.: **1.8 bn €**

Specialist: **Merrill Lynch**

Consensus target price: **1.96 €**

(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



Performance a 1 anno vs. FTSE Italia All-share Index



Following the issue of the last newsletter (on 11 November 2011) Hera's share price has showed a sizeable rise - exceeding 20% - from December 2010 till January 2011, which has led the price to a high of 1.7 € on 30 January and allowed Hera to close the gap with the performance of the Italian equity market index (FTSE Italia All-share). In the following weeks the share retraced almost the half of the previous rise, anticipating a correction movement that has affected even the Italian equity market index starting from mid-February, due to rising worries about the sustainability of sovereign debts of peripheral countries of the EuroZone, to the escalation of political tensions in the Mediterranean region Africa and, last but not least, after the violent earth wake in Japan, which has sparked off a nuclear crisis still pending.

ANALYST COVERAGE

Presently Hera enjoys a set of broker recommendations that is very favourable, represented by 12 buying ratings and just 1 on the neutral side. No analyst suggests to sell the stock. Target prices range from a low of 1.7 € to a high of 2.3 €. The stock price shows a 25% undervaluation considering the consensus target price of 1.96 €, which represents the average of targets indicated by the brokers covering Hera.

Broker	Target price €	Rating	Broker	Target price €	Rating
Axia	2.0	Buy	Equita	1.8	Buy
Banca Akros	2.3	Buy	Intermonte	1.8	Neutral
Banca IMI	2.0	Buy	Kepler	2.0	Buy
Banca Leonardo	2.1	Buy	Mediobanca	2.0	Outperform
CAI Cheuvreux	1.8	Outperform	Merrill Lynch	1.8	Buy
Centrobanca	1.7	Buy	Unicredit	2.0	Buy
Deutsche Bank	2.3	Buy	Average 13 brokers 1.96		

23 March 2011

CONTACTS
Head of Investor Relations
 Jens K. Hansen
 T.+39 051 287737
jens.hansen@gruppohera.it

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