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The Acegas Aps integration: new boost to Hera's growth path



2012 INTERIM EBITDA GROWS BY 5.7% IN A STILL UNFAVOURABLE EXTERNAL ENVIRONMENT

Dear Shareholders, the today's BoD, which has examined the 2012 interim report, has also approved the integration plan of Acegas Aps into Hera, whose framework agreement had been released on 25 July 2012.

Hera's interim results once more confirm the effectiveness of business portfolio as well as the good levels of profitability achieved while keeping a low risk profile. Particularly the Gas area, together with the Water one, has driven consolidated EBITDA growth close to 6%, despite a negative economic environment affecting the Waste performance and higher commodity prices putting pressure on operating margins, while slowing down market expansion.

Thanks to healthy financials, a visible cash generation and a balanced level of indebtedness, we could plan a wide-breath deal such as the one that will lead us to integrate in a few months the leading multiutility in North-Eastern Italy.

During the growth path we followed in the last 10 years, whenever we could select companies to integrate, we stuck to clear financial discipline and consistent business rationale; we have always proved to succeed in achieving the synergies that we had projected. This deal, though the larger so far, will not be different.

Acegas Aps presents specific features that make it an ideal candidate for the integration into Hera, nearly an enlargement of our operating platform: I do not only refer to geographical proximity, but also to the strong positioning in the territory, as well as to the business portfolio - well balanced between regulated and

Hera can plan new growth by external lines thanks to financial strength and fundamentals that mirror its health

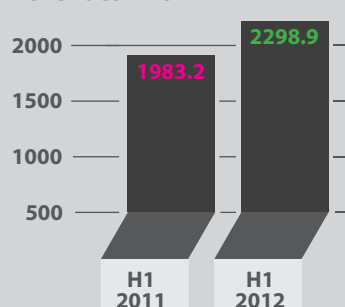
liberalised activities – boasting a sizeable involvement in the areas of Waste, Energy and Water.

Following the integration, Hera on one hand will gain a leading size among Italian players and, on the other one, will be able to represent a pole for future integrations, allowing a sector consolidation that is no more deferrable. As you will see from details presented on page 3, the deal has been structured in order to be counterdilutive, with an estimated increase in earnings per share around 8-11%, as a consequence of synergies that we expect to be approximately 25-30 million per year, in line with the results that we have achieved in past integrations. In the meantime, the solid financial structure that represents a typical Hera's strength, will remain unchanged.

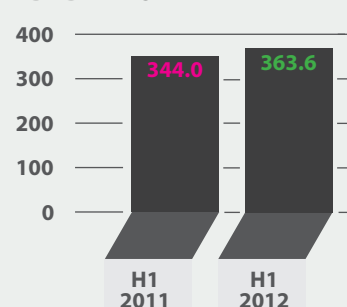
Even though Acegas Aps and Hera will present "integrated" financial statements only starting from 1 January 2013, over the coming weeks we will continue to work hard in order to complete the deal according to schedule and turn the projected advantages into a real perspective.

Tomaso Tommasi di Vignano

Revenues m€



EBITDA m€





FIRST HALF 2012

(figures in million euro)

REVENUES

2,298.9 (+15.9%)

EBITDA

363.6 (+5.7%)

EBIT

212.1 (+6.4%)

INVESTMENTS

121.4
(100% operating)NET FINANCIAL
DEBT

2,099.2



Focus on 2012 interim results

/// The healthy performance of the Gas area has driven consolidated revenue growth, while providing a substantial contribution to the increase of Group EBITDA (+5.7%).

/// The role played by external factors, in terms of higher interest rates and heavier taxation, prevented the pass-through of improvements achieved at operating level down to bottom line.

In the first six months of 2012 consolidated revenues grew at a sustained pace (+15.9%), in particular thanks to high volumes of gas sales.

The substantial increase in commodity prices, which on one hand drove the headline expansion, on the other hand led to an increase in operating costs, mostly linked to high volumes of gas sales; higher commodity prices have furthermore generated a temporary negative impact on fair values of hedging contracts on commodity purchases, both in the Gas and in the Electric Energy business, even though to a lower extent than in the first quarter, since contracts are getting closer to their expiration date. All in all, consolidated EBITDA improved (+5.75%), even though at a lower rate than the one of revenues.

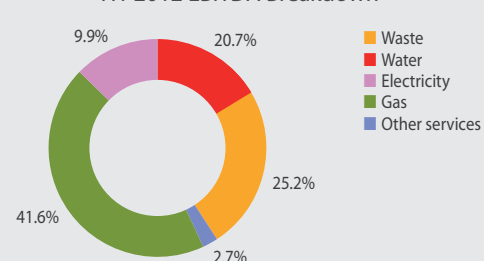
Interim EBIT grows by 6.4%, reaching 212.1 million euro; so, at a higher growth rate than EBITDA, thanks to quite contained dynamics in

Depreciation & Amortisation (+4.8%). Pre-tax Profit, which anyway shows a 3% increase, incorporates the absorption of 61.8 million from the financial management area, whose net charges increase by 15.5%, mostly due to higher spreads. Net Profit, equal to 83.4 million, is substantially flat vs. the 2011 interim result of 83.2 million; the improvement achieved in Pre-tax Profit was wiped off by higher taxation (increase of 1.5 percentage points in tax rate, which reached 44.5%). The positive impact of the introduction of IRAP deduction could not counterbalance the negative effect of the higher IRES provided by the Robin Hood Tax.

EBITDA

m€	H1 2011	H1 2012	Change
Waste	105.2	91.6	-12.9%
Water	67.5	75.2	+11.3%
Gas	120.6	151.1	+25.3%
Electric Energy	42.2	35.9	-15.1%
Other services	8.4	9.8	-16.8%
TOTALE	344.0	363.6	+5.7%

H1 2012 EBITDA Breakdown



The 5.7% increase in consolidated EBITDA synthesises very different performances across sectors, with Gas (+25.3%) and Water (+11.3%) driving growth.

Considering each business area, **Gas** presents the most brilliant performance, hence significantly exceeding 40% of Group EBITDA. Volumes of gas sales were particularly dynamic (+17.7%); even volumes of gas distributed posted a substantial rise (+4%), above the Italian average (+3.7%); healthy growth in heat volumes (+8.5%) was experienced as well.

Favourable contracts for commodity procurement allowed good margins in Gas, even with rising commodity market prices. **Water** (+11.3%) provided another substantial contribution to the Group EBITDA growth: in this area, on the back of revenues expanding by 5.3%, EBITDA margin jumped from 24.7% to 26.1%. The weak performance of **Waste**

EBITDA (-12.9%) on the contrary discounts the end of CIP6 incentives on WTE plants, with an impact of some 8 million, while volumes were declining by 13.7% due to the economic recession and to unfavourable weather conditions. Lastly, **Electric Energy** EBITDA fell by 15.1%, despite a 9.6% revenue growth, being penalised by higher commodity prices.

Hera celebrates its first 10 years with a relevant merger plan

/// The integration of Acegas Aps into Hera will establish the second largest Italian multiutility.

/// The deal, which presents a strong industrial rationale, paves the way to future sector aggregations.

/// The success in extracting synergies, which Hera has proved over time, makes the targeted shareholder value creation even more visible.

Who is Acegas Aps?

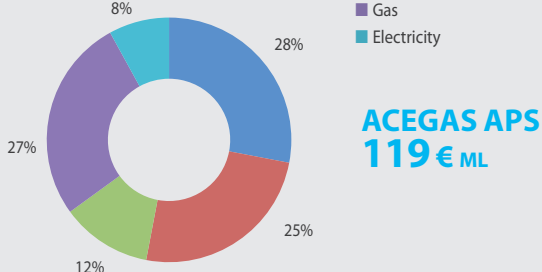
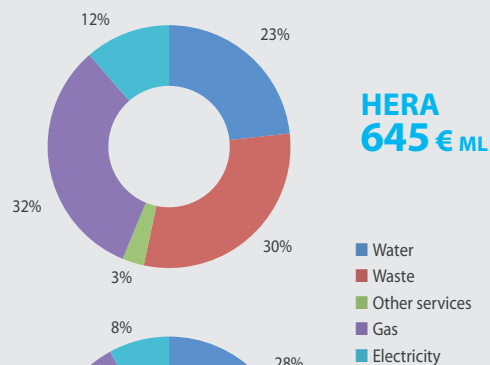
It is the Trieste and Padua multiutility, established in 2003 with the merger of Acegas (a company listed on the Italian stock Exchange since 2001) and Aps. Covering approximately 500,000 inhabitants and boasting a well-balanced portfolio of regulated and liberalised activities, Acegas Aps represents a leading operator in North-Eastern Italy. The Group has moreover been awarded two long-term concessions in the gas sector in Serbia and Bulgaria. In fiscal year 2011 Acegas Aps presented a sound level of profitability and financial strength, as key-items prove: Revenues of 585 million, EBITDA of 119 million and Net Profit of 18 million, besides a Net Financial

Debt of 447 million. When the deal was released (on 26 July 2012), Acegas Aps market capitalisation was around 203 million.

What is the industrial rationale for the merger?

The two Companies, which operate in contiguous territories, present a similar portfolio, as the two ring charts show. The merger will therefore allow to consolidate the present leadership both in the Waste business and in Network Services; it will also enhance the "firing power" of commercial activities in Energy. The new entity will be able to leverage size and become the ideal aggregation pole for further players in the reference area.

2011 EBITDA Breakdown



Hera's key financials after Acegas Aps integration

(aggregated figures of the respective consolidated 2011 annual reports)

Revenues: > 4.5 billion

EBITDA: > 750 million

Net Profit: > 140 million

Net Financial Debt/EBITDA: ca. 3.2x

Net Financial Debt/EBITDA

- 1^o player in Italy by treated waste volumes (5.4 million tons)
- 2^o biggest Italian Group among local utilities
- 2^o player in Italy by water volumes (300 mcm)
- 3^o player in Italy in gas distribution (2.9 bcm)
- 5^o player in Italy in electric energy sales to final clients (ca.11 TWh)
- 7^o player in Italy in gas sales to final clients (2.8 bcm)

How will shareholders benefit from a successful integration?

Thanks to the integration, some 25 to 30 million yearly synergies should be achieved. That would lead to an yearly 8-11% EpS increase for the new entity.

How has the deal been structured?

In two phases:
1) Acegas Aps Holding (controlling 62.69% of Acegas Aps SpA share capital) will be merged into Hera, with effect on 1 January 2013.
2) Public offering to minority Acegas Aps shareholders.

What are the swap ratios?

The swap ratio for the merger is of around 0.763 new Hera shares for

each euro of Acegas Aps Holding's social capital (equal to 188 million euro). The Italian municipalities of Trieste and Padua, which are the only shareholders in Acegas Aps Holding, will receive around 143.38 million Hera shares and 3.4 million euro, in terms of cash proceeds. The equivalent terms for the bid on minorities are of 4.16 new Hera shares plus 0.27 euro for every Acegas Aps share. Should the public offer be 100% successful, the maximum cash amount would reach 5.6 million euro.

How will Hera share capital change?

Hera will issue 143.38 million new shares for the merger and a maximum of 84.83 million new shares for the public offer, for an overall amount of 228,214,477 new

shares. The post-offering share capital may therefore reach 1.343 billion shares.

How governance may be affected by the merger?

The system will indeed remain stable. Once the Municipalities of Trieste and Padua will have joined the Shareholders' Pact signed by Hera's public shareholders on 2 December 2011, those Municipalities will acquire the right to each appoint a Director to sit on Hera's BoD. The Board will then be increased to 20 members. At the expiration of the current mandate, at the Shareholders' Meeting called to approve the financial statements as at 31 December 2013, the total number of Directors will be reduced to 15, out of which 12 appointed by the majority.

Timeline of the merger

28 August 2012
Acegas Aps and Hera BoDs for the approval of the merger plan.

15 October 2012
Shareholders' Meetings of Acegas Aps and Hera for the approval of the merger plan and of the post-merger Hera's article of association.

December 2012
Execution of the merger deed.

1 January 2013
Date into which the merger enters into effect. Afterwards, the public offer can start, with the target of the Acegas Aps delisting

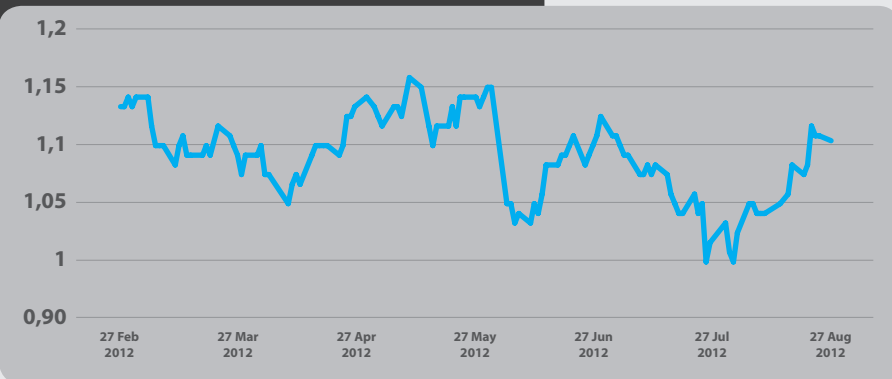
Hera share

Price as of 27 August 2012: **1.1 €**
 Low-High 365 dd: **0.96-1.29 €**
 No. outstanding shares: **1,115,013,754**
 Mkt. Cap.: **1.2 bn €**
 Specialist: **Merrill Lynch**

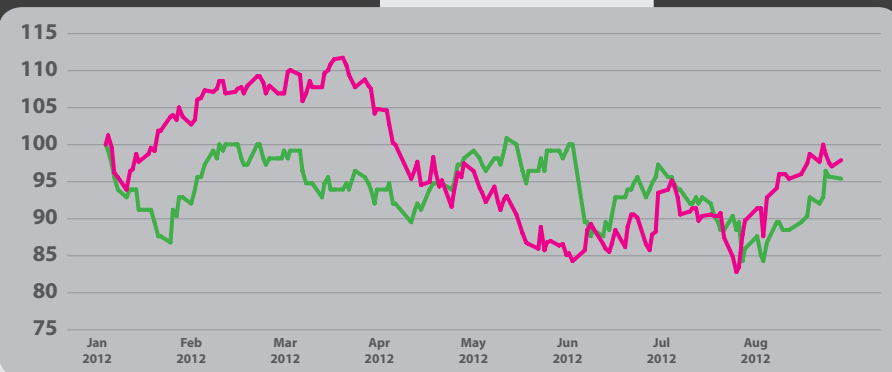
Consensus target price **1.41 €**
 (source: broker research)

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's stock price - 6-month absolute performance



Hera vs. FTSE Italia All-share Index



The double-bottom below the 1 euro threshold, experienced in the trading days following the release of the Acegas Aps merger plan, can be considered as a result of arbitrages to exploit the differences between the stocks of the two companies involved. Apart from that, the absolute performance of the Hera share continues to confirm the oscillation movement inside the 1 - 1.15 range, started at the beginning of the year. Hera's price has alternatively outperformed or underperformed the Italian equity market index over the last 8 months, all in all presenting a lower volatility than the benchmark.

ANALYST COVERAGE

Hera's consensus target price slightly changed, in comparison with the picture provided in the last issue of this newsletter, decreasing from 1.49 euro to 1.41 euro. Since half-May 2012, brokers have substantially reduced the target prices of stocks that represent their coverage universe, with the aim of incorporating into their valuations the higher equity risk-premium. So, the just marginal adjustment in Hera's average target price reflects that the merger plan has been welcome, both in terms of the industrial rationale and in terms of the shareholder value creation that it will be able to generate. Besides an independent analyst, there are always 11 brokers following Hera, since the initiation of coverage from Citi (target price of 1.30 euro and Buy rating) counterbalances the discontinuing of Exane BNP Paribas research. Most brokers recommend to buy the stock (8 out of 11), on the back of the huge undervaluation (around 30%) of recent Hera's prices vs. the target price.

Broker	Target price €	Rating	Broker	Target price €	Rating
Banca Akros	1,40	Buy	Equita	1,80	Buy
Banca Aletti	1,45	Outperform	Exane BNP Paribas	1,25	Hold
Banca IMI	1,25	Add	Intermonte	1,25	Outperform
CAI Cheuvreux	1,55	Outperform	Kepler	1,90	Buy
Centrobanca	1,18	Hold	Mediobanca	1,23	Neutral
Deutsche Bank	1,30	Buy	Average	1,41	

27 August 2012

/// **28 August 2012**
 BoD for the approval of H1 2012 results

/// **13 November 2012**
 BoD for the approval of 9M 2012 results

New EIB financing

On 20 July 2012 the European Investment Bank (EIB) has provided Hera with a 15-year loan for an amount of 125 million euro, at a rate of 6-month Euribor plus a spread of 1.46%.

Hera included among 'Top Picks'

Noteworthy, the Deutsche Bank report released on 10 August 2012, includes Hera among the Pan-European broker's Top Picks, with a target price of 1.80 euro and Buy rating.



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

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