

Year 2, Issue 2

The information contained in this newsletter is as of 14 May 2007

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A copy of our Q107 Report will be available on the website at:

www.gruppohera.it

**Investor Relations /
Reports and Results**

The Q107 Results Presentation is available on Hera's corporate website at:

www.gruppohera.it

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HeraNews

Investors' Newsletter

Q1 07 results released: message from the Chairman of the Board



First quarter 2007 results that we present today clearly indicate that once more we could have posted double-digit EBITDA growth, if unfavourable weather conditions had not occurred.

Therefore we do confirm future development projects and long-term targets we are committed to achieve.

In particular in case of situations that we cannot forecast nor manage – like the extraordinarily mild temperatures we experienced last winter – we can better prove that our business model works, thanks to its balanced features. We can also test how rewarding can be a strategy which combines benefits from organic growth with synergies from M&A.

Profitability in the Gas industry was already deeply affected by the AAEG Delibera n.134, which does not allow any further pass-through of commodity price increases.

Provided this negative environment, gas volumes showed a sizeable reduction (by some 220 million cubic meters) as a consequence of anomalous warm temperatures over the last months.

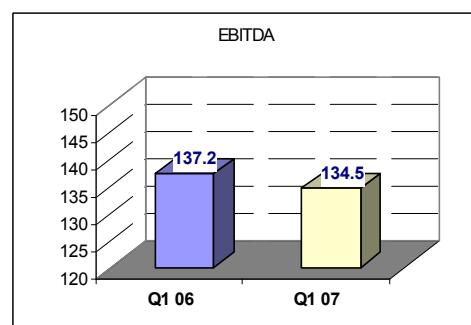
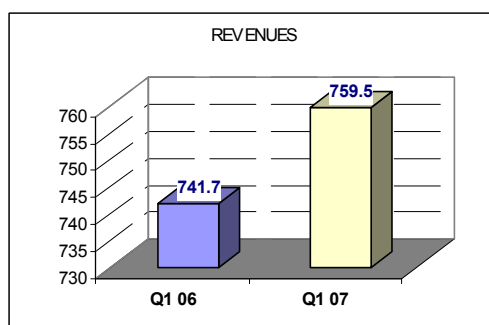
Two positive aspects partly mitigated those occurrences: on one hand the increase in revenues per unit, since lower level of consumptions correspond to higher tariff levels, on the other hand the enlargement of consolidation perimeter thanks to the integration of two new companies, GEAT and Aspes.

Thanks to the results we have achieved so far we strongly believe we have to keep on following our strategic path. Therefore we continued to invest according to our capex plans. At the same time we have pursued, through several initiatives, our strategic goal of strengthening our upstream presence – we have made a capital injection in GALSI, in order to provide the company with the means to promptly catch growth opportunities; we have also signed a supply contract directly with Gazprom; we are furthermore participating into bids which take place for the release of transport capacity,

In conclusion I wish to confirm the quality of achieved results, the satisfactory financial performance - keeping the negative weather impact apart - and the continuous effort to develop according to the business plan, which involves the commitment of the all of us at Hera.

Yours faithfully,

Tomaso Tommasi di Vignano



Q1 2007

(mn €)

REVENUES 759.5 (+2.4%)

EBITDA 134.5 (-1.9%)

PRE-TAX PROFIT 87.1 (-8.9%)

NET FIN.DEBT 1322.4

A CLOSER LOOK AT OUR PERFORMANCE IN Q1 2007

Revenues present a 2.4% expansion at consolidated level. Such a growth mirrors positive developments in the electricity market, as well as tariff and contribution improvements – those factors counterbalanced the strong reduction in volumes of gas sold (-220 million of cubic meters) as a consequence of the extraordinarily mild winter.

EBITDA, substantially stable at 134.5 million of euros, shows the net impact of

1) a negative driver: 19 mn of euros less due to the gas sales decrease

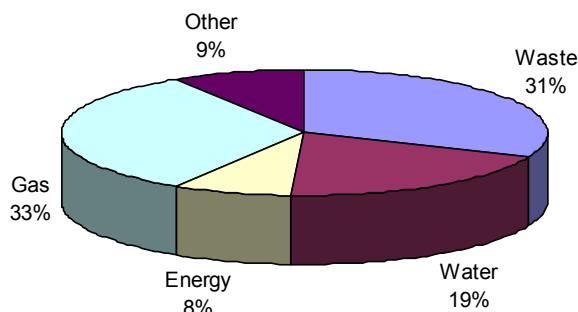
2) and of a positive one: 16.3 mn of euros more, due to growth, namely 6.6 mn from organic growth and 9.7 mn from M&A.

EBIT (-8.9% vs. Q1 2006) reflects higher depreciation linked to sizeable investments carried out in the meantime.

Absorption of further resources came from higher Net Financial Charges – 17.1 mn of euros – due to higher Net Debt levels (1,322.4 mn of euros) funding the demanding capex plan.

Therefore Pre-Tax Profit presents a reduction to 70 mn of euros, in comparison with the 82.6 mn of euros posted in Q1 2006.

	Q1 06	Q1 07	Change
Revenues (m€)	741.7	759.5	2.4%
EBITDA (m€)	137.2	134.5	-1.9%
NET OPERAT. PROFIT	95.5	87.1	-8.9%
PRE-TAX PROFIT	82.6	70	-15.3%

1Q07 EBITDA BREAKDOWN

The EBITDA breakdown by industry witnesses a well-balanced profile for Hera's business portfolio, while showing the sudden stop in the Gas business area.

Waste confirms its sizeable role (31.1%) and an attractive dynamic (+11.9% revenues; +7.4% EBITDA), also thanks to Aspes consolidation.

Water improved its marginality by over 4.7 percentage points, leading to an EBITDA improvement of 36.4%, mainly due to organic growth.

Electricity plays a growing role in Hera's business portfolio, with a sustained pace in revenue growth (+62.5%), which reflects, in addition to the consolidation of the ex-Enel network at Modena, also the contribution from the CCGT plant in Teverola (400 MW), whose operations started in December 2006.

Other Activities present stable results thanks to the careful rationalisation underway.

The reduced contribution coming from the Gas business to the Group EBITDA discounts a decrease in revenues by 14.1% and in EBITDA by 24%. Please note that in the Gas business unfavourable weather conditions overlapped pre-existing negative impacts from regulatory changes (Delibera 134, AEEG).

FY 2006 DIVIDEND: 8 cts €**DATE OF SHARE-OUT: 4 JUNE 2007****DATE OF PAYMENT: 7 JUNE 2007**

AT HERA VALUE CREATION TAKES PLACE THROUGH A SUSTAINABLE BUSINESS APPROACH



This year Hera succeeded in preparing and releasing the Sustainability Report in time to present it during the Annual Shareholder Meeting.

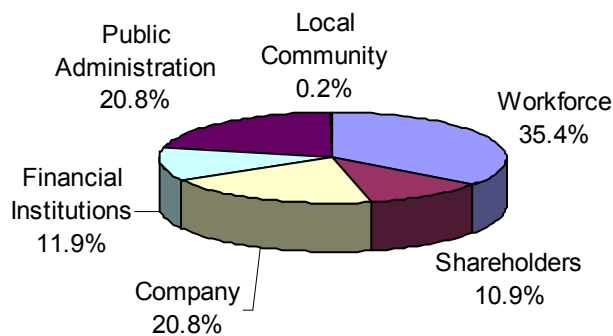
The report, whose cover appears here on the left, summarizes the effort of communicating in a transparent and effective way not only financial results, but also those sustainability KPIs that are the premise for a healthy and profitable growth.

As Mr. Chiarini, Hera's CEO stated, when the day-by-day management is geared to Corporate Social Responsibility principles "you actually have a good chance of improving Company's competitiveness".

Hera's development project involves a sustainability strategy which has generated wealth for all corporate stakeholders.

The Indicator which allows to link results from the Sustainability Report with the Fiscal Year ones, that is the Gross Global Value Added generated for stakeholders, in 2006 amounted to 838.8 million of € (+12% vs. 2005), according to the sharing indicated in the pie chart below.

DISTRIBUTION OF VALUE ADDED TO STAKEHOLDERS



JUST TO REMIND YOU THAT...

Within the Private Investor section you can calculate the Total Shareholder Return of your investment in Hera stocks—i.e. capital gain + dividend yield—entering the **Shareholder Return** area

HERA ANNUAL SHAREHOLDER MEETING

26 APR. 2007



The Annual Shareholder Meeting took place in Bologna on 26 April 2007.

Shareholders unanimously approved the Fiscal Year 2006 Report, which presents improving results for the fourth successive year.

The AGM also approved the **distribution of a 0.08€ dividend per share** – an increase of 14.3% over the previous fiscal year, leading total dividends to 81.5 mn of euros.

The AGM has moreover approved a **15 mn share buyback**: over the coming 18 months up to a maximum of 60 mn of euros can be invested for such purpose.



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2007 FINANCIAL CALENDAR

14 May

Board Meeting to approve first quarter 2007 results

12 September

Board Meeting to approve semi-annual 2007 results

14 November

Board Meeting to approve third quarter 2007 results

HERA SHARE

Price as at 11 May 2007: 3.3 €

365 dd High-Low: 3.48-2.4 €

Outstanding shares

1,016,752,029

Mkt Cap: 3.35 bn €

Specialist: Banca IMI

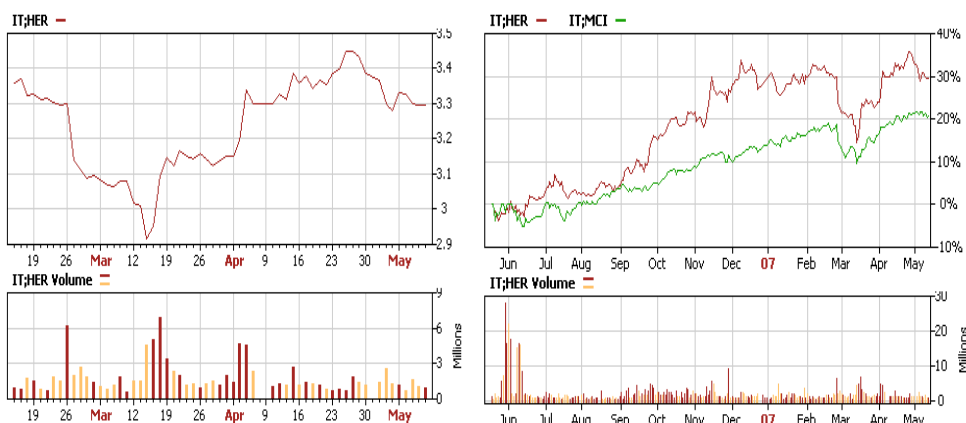
Price target consensus (source Reuters): 3.53€

Hera stock exchange indices

Midex—Borsa Italiana
DowJones Stoxx TMI
TMI Utility
Axia Ethical
Kempen/SNS Smaller Europe SRI Index

Next Issue: 12 September

Hera share 3m performance and 1y vs. MIBTEL



The chart on the right, which shows the price line for the Hera share (red line) vs. the Mibtel Index (green line), proves that Hera, notwithstanding the short term downtrend that was over at mid-March—continues to outperform the market by 10 pct points, with a 30% absolute annual increase, vs. the 20% posted by the Index on an annual basis.

Consensus target price (source Reuters) improved from 3.3 (last issue of this newsletter) to 3.53 € p.s.. In the meantime Merrill Lynch released its report with the Initiation of Coverage on Hera (Rating: Buy, Target Price: 3.3€). At present therefore Hera can boast the coverage from 4 international brokers - besides Merrill Lynch, Citigroup, Chevreux and Cazenove.

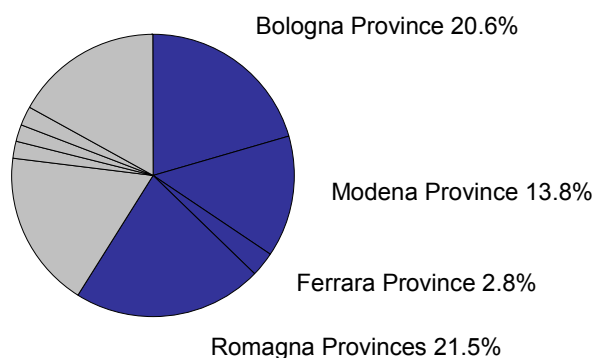
Shareholders

Free float 41.3%

Schroders >2.0%*

Pictet >2.0%*

Amber C. ~ 1.9%*



* included within "free float"

The picture of main Hera's shareholders has not changed over the last three months. Both Pictet AM and Schroder Investment Management hold 2% stakes which have to be added to the 37% free float we present in this chart.

We await your comments on our newsletter. Please send them to:

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