

## Year 3, Issue 1

The information contained in this newsletter is as of March 27th, 2008

### CONTENTS

#### PAGE 1

Message from the Chairman of the Board

#### PAGE 2

Focus on FY07 results

#### PAGE 3

M&A Activity

Hera wins the Annual Report Oscar

Hera wins Quality Confservizi Award

#### PAGE 4

Hera and the Stock Exchange

Financial calendar

Shareholders

Share price

Services for shareholders

The draft of the HTML version of our FY07 Report will be available on the website as soon as results are released at:

[www.gruppohera.it](http://www.gruppohera.it)

Investor Relations /

Reports and Results

The FY07 Results Presentation is available on Hera's corporate website at:

[www.gruppohera.it](http://www.gruppohera.it)

Investor Relations /

Presentations

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# HeraNews

Investors' Newsletter

## Presented FY07 Results: Message from the Chairman of the Board

Dear Shareholders,

The results that the Board approved today confirm what we promised to the financial market at the time of the IPO.

Over the last five years we posted an overall CAGR at EBITDA of 18.8% and an even higher growth rate of Earnings, of 23.9%.

If we focus on last-year results, increases in tariffs of water, waste and gas distribution proved to play a significant role in driving organic growth; cross selling as well as trading activities played a positive role, too.

In FY07 we had to experience a decline in EBIT, by 4.6%, because of depreciation and provisions increasing slightly less than 20%, as a consequence of a high concentration of capital expenditure.

At bottom line, anyhow, we posted a 9.7% increase vs. FY06, thanks to lower taxes due to the new deferred tax regulatory framework.

Even in 2007 we succeeded in extracting synergies and efficiency gains from the integration of recently acquired companies. The Modena electricity distribution network, bought at mid-2006, could provide a full-year contribution to 2007 results. Those positive drivers could offset the negative impact stemming from a mild winter in 2007.

The schedule of our investment pipeline is on track - the plan in Ferrara started operations from November 2007 and the one in Forlì was 100% built at the end of the year. Therefore we are confident we can achieve our future targets.

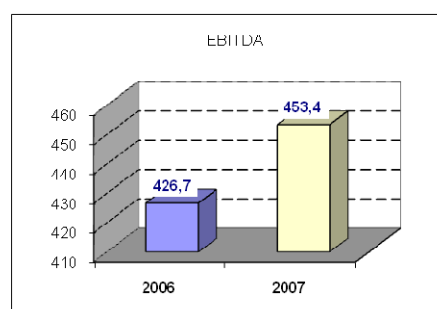
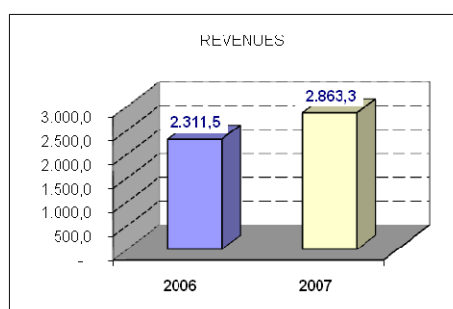
At page 3 of this Newsletter we present an overview of M&A deals closed over the last 5 years. The achievement of an efficient model of industrialisation of public utilities and the



launch of a consolidation process in the sector, which made possible to extend the "Hera model" to other multi-utilities, were a real challenge to our shareholder value creation. We successfully met this challenge.

So I iterate our commitment to continue along this path, being ready for catching potential consolidation opportunities which can make us prove our competitive strength in the domestic arena.

Tomaso Tommasi di Vignano



**FY 2007**

(mn €)

REVENUES 2,863 (+23,9%)

EBITDA 453 (+6,3%)

EBIT 221 (-4,6%)

INVESTMENTS 464

NET FINANCIAL DEBT 1,424

**Focus on FY07 Results**

Consolidated revenues show a 23.9% increase, due to the strong growth of electricity trading, which widely offset the decline in gas sales, experienced as a consequence of exceptionally mild weather, making gas demand fall.

EBITDA yoy growth of 6.3% is quite a satisfactory result in light of the negative impact on margins produced by the 12-month effects of the new regulation (del. 134 of AEGC).

Normalising Results by mild winter effects on 2007, Hera would have reached Euro 480 million Ebitda implying +13% growth in line with past track records.

EBIT declines by 4,6%, after the absorption of depreciation and provisions increasing by 19.2%.

Net operating charges, due both to higher interest rates and to a higher net debt, present a yoy change of 49.7%.

Pre-tax profit therefore decreases by 20.5% to

142.5 mn, equal to 5.0% of revenues.

Benefits provided by the 2008 Budget Law as far as deferred taxes are concerned allow a decline in taxes by 58.7% from 79.0 to 32.6 mn euro, with a consolidate tax rate of 22.9% vs. a 44.1% in 2006.

Consolidated net profit is therefore equal to 109.9 mn, increasing by 9.7% over the previous fiscal year and representing 3.8% of revenues.

The 10.2% increase in net capital employed is due to the increase in net fixed assets, while the net working capital was decreasing.

Net financial debt expanded by 21.4% to 1,424.1 mn, representing 48.1% of net invested capital.

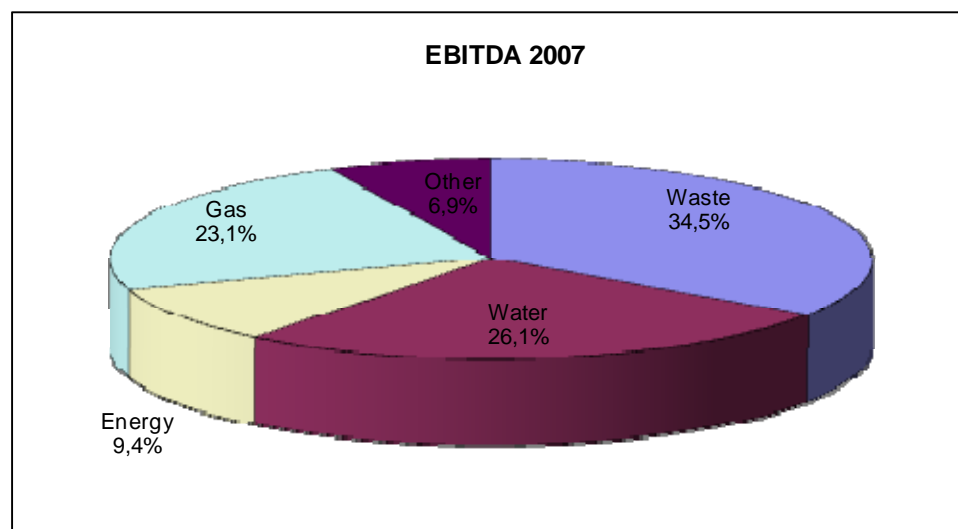
**DISTRIBUTED DIVIDEND FY 2006: 8 cts**

**PROPOSED DIVIDEND FY 2007: 8 cts**

**DATE OF APPROVAL FOR AGM: APRIL 28th-29th 2007**

**DATE OF SHARE-OUT: JUNE 2nd 2007**

**DATE OF PAYMENT: JUNE 5th 2007**



EBITDA breakdown continues to prove that Hera boasts a well-balanced business portfolio.

Waste still is the greatest one, even though its weight drops from 35.3% in 2006 to 34.5%.

Water shows a certain increase (from 25.2% in 2006 to 26.1%).

The Gas business provides a well lower contribution, since its weight falls from 27.2% to 23.1% yoy.

Substantial increase (from 5.9% to 9.4%) for the electricity weight.

Such a break down is more and more closer to the targeted contribution of various areas within the strategic plan horizon, which implies a lower weight of Gas compensated by an expansion in Electricity and Water & Waste.

## M&A ACTIVITY

	Announce (€nn)	ment	Turnover	EBITDA	NFD	Stake	EV/Ebitda	Original Value
Agea	12/2003		144	25	-15	100,00%	5.9x	44
Meta	11/2005		278	65	5,8	100,00%	7.7x	97,34
Aspes*	07/2006		90	13	-5,7	41,80%	5.5x	16,6
Geat	06/2006		13	2	-1,4	100,00%	7.0x	12,5
Sat	07/2006		62	12	-18,5	100,00%	8.5x	34
Modena prov network	08/2006		51	12	0	100,00%	8.2x	107,5
Total			638	129	-34,8			311,94

## HERA WINS THE 2007 ANNUAL REPORT OSCAR

On 28th November, 2007 the Hera Group awarded the "Annual report Oscar". The last issue of this newsletter anticipated that Hera was one of the three nominees in the category "Major listed and non-listed Companies". This prestigious award has been assigned in light of the completeness and clarity of contents, made available both in Italian and in English. Another appreciated strength was the commitment to CSR, provided that the Sustainability report is issued at the same time of the Annual Report.

The jury in particular appreciated "the communication effort, also in terms of technology adopted, in Italy and abroad, to promote shareholder involvement through an impressive range of solutions, advanced even in terms of technological devices used."

Hera has indeed distributed its Annual Report to over 6,000 employees, 180 public shareholders, 200 suppliers and 30 banks. Contents were online in real time, while internal TV channels and corporate portal contributed to disseminate information.

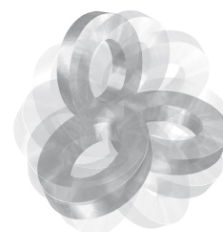
## HERA WINS THE QUALITY CONF SERVIZI AWARD

On 15<sup>th</sup> November, 2007 Hera resulted in being the winner of the Confservizi Quality Award. The n.1 ranking in the category "Systems of Environmental and Social Reporting" has been achieved thanks to the work done over the last years in the field of Corporate Social Responsibility, as proven by the Sustainability Report – the first Italian one which deserved an A+ level according to the complete fulfilment of requested information and to the independent audit of contents.

On 8<sup>th</sup> January, 2008 Hera Sustainability Report has been selected in the short list of the GRI Readers' Choice Awards, among some 800 competing companies.

### 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



Oscar di Bilancio  
Società  
e Grandi Imprese

**WINNER  
2007**

## THE PROJECT "UN POZZO DI SCIENZA" CONTINUES in 2008 - 90 LABORATORIES, 20,000 STUDENTS INVOLVED

Being a truly responsible corporate Hera continues its initiative "Un pozzo di scienza" – literally "A pit of science" or, better, "A Monument of Learning", through a range of projects aimed to invest in environmental education in the community of its territory. At this stage Hera has two objectives:

1. to make young people understand the impact of complex processes involved by the recovery of natural resources of every-day behaviour;
2. to disseminate a social and environmental culture leveraging on scientific knowledge.

The project involves 9 towns in the Emilia Romagna region, through laboratories, role play, historical places, scientific café and theatre plays, involving many renowned scientists and politicians.

## CONTACTS

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## 2008 FINANCIAL CALENDAR

**March 27th**  
Board Meeting to approve 2007  
annual results

**April 28th-29th**  
Annual General Meeting of  
Shareholders to approve 2007  
Results

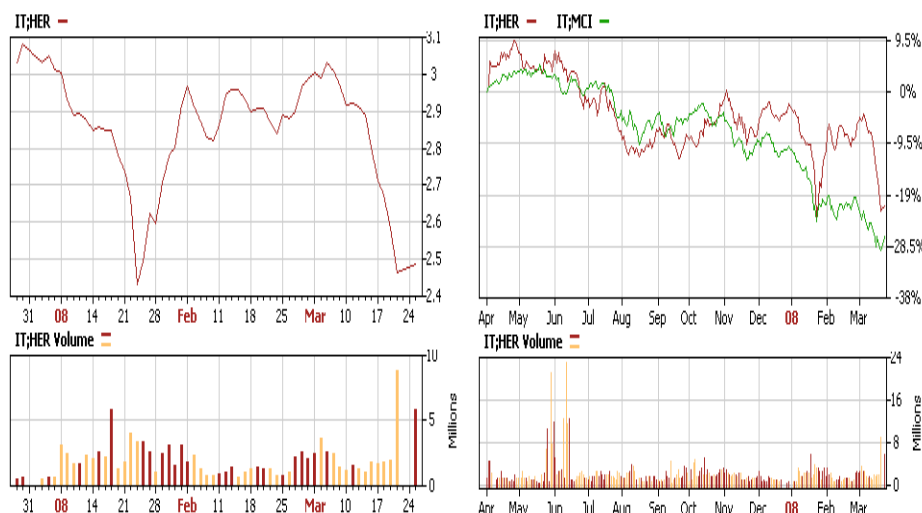
**May 14th**  
Board Meeting to approve first  
quarter 2007 results

**August 29th**  
Board Meeting to approve semi-  
annual 2007 results

**November 14th**  
Board Meeting to approve third  
quarter 2007 results

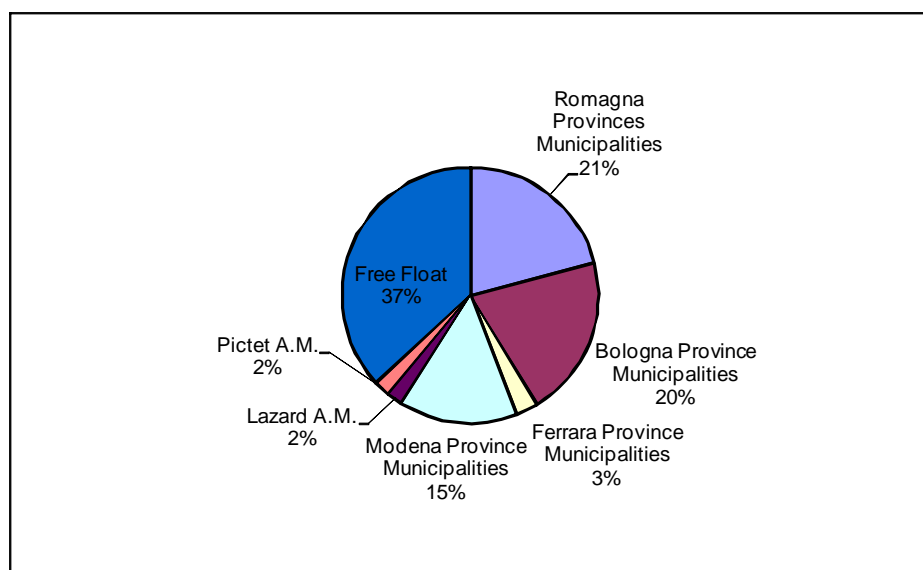
After the SAT merger the  
number of Hera outstanding  
shares increased from  
1,016,752,029  
to  
1,032,737,702

## Hera share 3m performance and 1y vs. MIBTEL



The 3-month chart shows that the share price has come back to the levels of late January lows. Nonetheless the share keeps on proving its defensive feature, outperforming the all-share index. The chart on the right, which shows the price line for the Hera share price (red line) vs. the Mibtel Index (green light), indeed proves that Hera outperformed the market, limiting its yoy decline to a 20%, vs. a -28% posted by the all-share index.

## Shareholders (at 1st January, post capital increase)



Pictet AM and Lazard A.M. holding stakes, within the free float, remain around 2% each.

Analyst ratings remain positive (80% of them have positive recommendations on the stock). There is no sell rating. The target price vs. the last HeraNews issue moves from 3.4 to 3.5%. Analysts estimate that the start of a sector consolidation would have an immediate positive impact on stock price of 0.2-0.3 cts per share on average; such an estimate does not take into account potential synergies.

In January 2008 two brokers issued their initiation of coverage with a BUY rating - Dresdner Bank (target price of 3.3€) and Akros (target price of 3.51€).

We await your comments on our newsletter. Please send them to: [ir@gruppohera.it](mailto:ir@gruppohera.it)