

Year 2. Issue 3

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A copy of our H107 Report will be available on the website at:

www.gruppohera.it

**Investor Relations /
Reports and Results**

The Presentation of H107 Results and 2006-10 Strategic Plan is available on Hera's corporate website at:

www.gruppohera.it

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HeraNews

Newsletter per gli Investitori

2007 First Half results release and new Strategic Plan: message from the Chairman of the Board

Dear Shareholders,

Today Hera presents its 2007 first half results and a new four-year strategic plan.

The picture provided as of 30 June proves that the dynamic pace for revenues (+14%) benefit from recent acquisitions' contribution, as well as from organic increases in volumes and tariffs of regulated business; those positive impacts partly compensated for the decrease in gas sales due to mild winter temperatures. The EBIT level reached, equal to 113.8 mn euro, mirrors margin pressures on the gas business stemming from the Regulator's Delibera 134. We believe that in first half we succeeded in posting sound results, keeping exogenous factors apart, provided even that 1H capex will start contributing to profitability in H2.

The strategic plan we present today extends its horizon to 2010. It still lays upon the three strategic guidelines that have dominated our planning so far - I mean the continuous expansion in market shares and assets, the achievement of new efficiencies and - last but not least - the never-ending effort in innovation, both in IT and in R&D. This business plan still presents Hera as the company with the highest growth rates in the Italian sector - a dynamism which continues to be supported by a healthy capital structure as well as by a low operating risk profile.

The plan shows a revenue growth rate which is still attractive - slightly below 6%. Electricity is expected to be the main driver for growth, thanks to an expansion in market shares boosted by cross selling - we presently have 370,000 electricity clients, vs. around 1 mn gas clients, with a promising development potential. Waste and Water, too, are expected to post an over-the - average dynamic, thanks to volumes expansion and the tariff increases foreseen on the back of industry laws.

The plan presents, at the EBITDA level, a CAGR of 11.9% over the 2006-10 period, well above the revenue CAGR. Therefore we estimate that the EBITDA margin can increase up to 22.7% as of 2010.



Operating cash flows over the four-year period should fully fund the capex plan, whose amount is estimated to be 1.4 bn euro.

The debt to equity ratio should hence remain stable around 80%. Therefore we can confirm to our shareholders a rewarding payout policy, with a 13% yearly growth rate for dividend.

Growth through M&A is still a strategic priority - we are committed to consolidate the outstanding positioning we have achieved in the multi-utility arena. Strategic plan figures nonetheless imply only well-defined M&A deals, according to that pragmatic and conservative attitude backing results achieved over the last years.

Tomaso Tommasi di Vignano

STRATEGIC PLAN	2006	2010	CAGR
Revenues (m€)	2364	2956	5.7%
EBITDA (m€)	427	670	13.9%
Net Invested Capital (m€)	2690	3060	
ROI (%)	9	14	
ROE (%)	7	12	
D/E	77%	80%	
Dividend			13%

1st HALF 2007

(mn €)

Revenues 1364,8 (+13,9%)

EBITDA 210,7 (+0,4%)

EBIT 113,8 (-6,9)

PRE-TAX PROFIT 77,6 (-21,9%)

NET FIN. DEBT 1.323

M&A:

SAT MERGER

Starting from 1 August 2007, 100% of SAT share capital - 46.5% of it having been bought in cash in 2006 - has been merged in Hera. SAT's Public shareholders will receive 14.5 mn Hera shares.

MEGAS MERGED IN ASPES

Following the merger of Megas in Aspes, Hera will hold a 41.8% stake of the new company Aspes-Megas and will hold the 100% of Megas Trade (35.000 clients).

PUT BOND ISSUE

In May, the issue of a 200 mn euro "Extendable Put Bond" has deserved the "A" rating from Standard & Poor's, as it happened when the previous 100 "Put Bond" was issued.

Focus on 1 Half 2007 results and on the Strategic Plan

HALF-YEAR RESULTS

Consolidated results show a 13.9% improvement. Such a dynamic mirrors the benefits of recent acquisitions, the increase in regulated businesses' tariffs as well as volume expansion, even suffering from weaker gas sales due to the mild winter experienced.

EBITDA, pretty in line with the 30-June 2006 figure, counterbalances the positive impact of acquisitions - namely Aspes and the Modena's electricity network - (+12.7 mn €), of synergies and organic growth (+15.1 mn €) and the negative impact (-27.0 mn €) of lower margins in the Gas business.

Investments in newly acquired companies generated higher depreciation (96.9 mn € vs. 98.7 in H106) - that leading EBIT to drop to 113.9 mn €.

First half capex plan, mainly focused in Waste and Water, absorbed 184.9 mn €, widely funded by operating cash flow of 117.7 mn €. Net financial debt as of the end of June amounts therefore to 1,323 mn €.

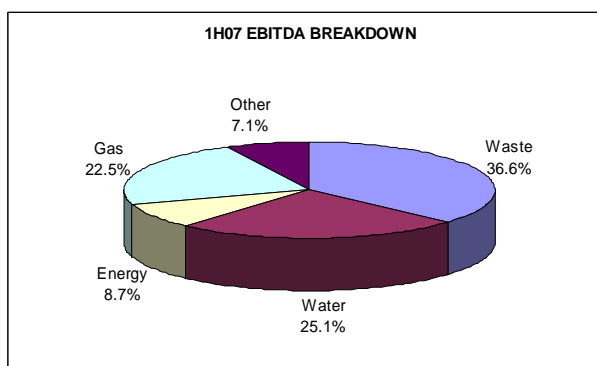
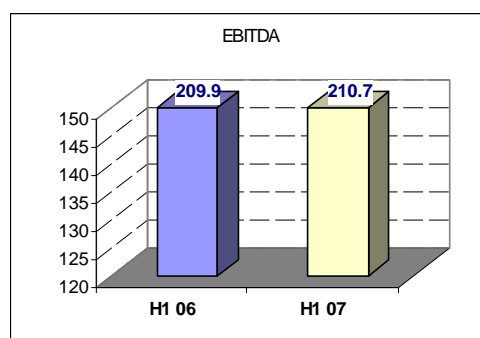
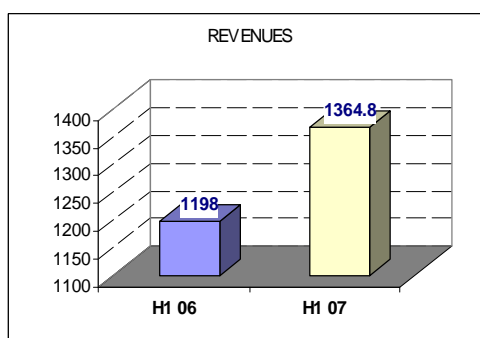
STRATEGIC PLAN

Drivers for revenue growth, which over the 4-year period should be on average 5,7%, will be focused in the Electricity business on cross selling and on market expansion, in Waste on market share increases and on tariff increases in urban waste tariffs (CAGR of 2.9%), in Water, lastly, on tariffs expected to rise by 4,7% per year.

Strong EBITDA growth (+13,8%) will be pushed by every business areas, with a substantial role to be played by Waste, which is expected to reach a 40% weight, and by Electricity, which in 2010 is expected to account for 11% of consolidated EBITDA. On the other hand a downsizing of the Gas weight is expected (down to 18%).

Investment plan (1.46 bn €) is pivotal for growth; it is also a key factor to the achievement of a 14.4% ROI in 2010; it involves 722 mn € in maintenance capex (ca. 180 mn per year) and 681 mn in development capex, mainly concentrated in 4 new WTE plants and in the refurbishment of a pre-existing WTE, in 2 power generation plants and in other plants based on renewable energy sources. Forecasted financial investments (36 mln di euro) attain the Galsi project.

The investment plan is fully funded by the operating cash flow generation, which is expected to exceed 1.6 bn € over the plan time period.



The sectoral EBITDA breakdown continues to prove the well-balanced profile of Hera's business portfolio; it also indicates a fall in the Gas business weight.

Compared to the picture as of 30 June 2006, the **Waste business** gains further 3.8 percentage points in terms of weight; **Water** gains 2.5 points and **Electricity** 3.2. **Gas** in the meantime loses weight by 9.5 percentage points.

THE INTERVIEW In this issue we interview Mr. Giuseppe Gagliano, head of Communications at Hera

Mr. Gagliano, could you please explain why you launched the “Un pozzo di scienza” project ? What were your objectives...

Well, at Hera we think that corporate responsibility means to promote environmental education inside the communities in which we operate businesses. For this reason we aim to make people understand what are the processes and the impacts of every-day behaviours, even the most common ones, which feature the relationship with the environment. An interactivity which is never neutral.

How could you facilitate this understanding?

We believe that the environment culture must leverage on scientific knowledge. Therefore we organised role plays, simulations, scientific café, involving scientists and research specialists. We could rely on high profile partners, ranging from CNR to ENEA, University Institutes, Museums and Environmental Associations. The project lasted for over one month, from mid-March to the second half of April 2007.

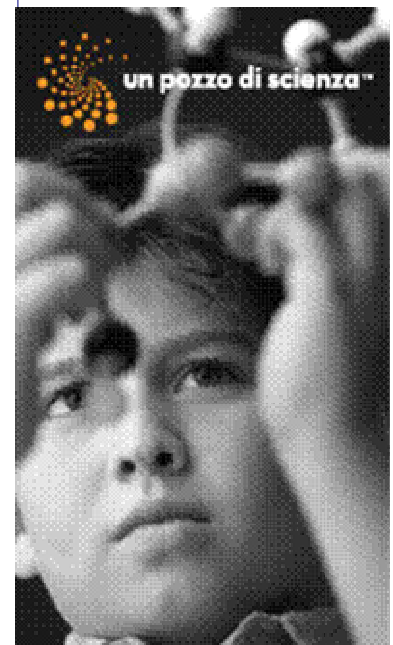
What were your targets?

We decided to spread project activities all over the Hera's operating territory, involving 9 towns. We targeted both students and adults. The response have been very rewarding: 8,467 people took part to the events, out of which 7,012 students, our tomorrow's clients.

Have you achieved the result you were aiming at?

No doubt. We are actually planning to repeat the project in April next year. I believe that in the future people who participated to this project, thanks to a better scientific understanding - once perceived the complex Hera's role as a multiutility - will facilitate this role through a more environmental-friendly behaviour”..

“At Hera we think that corporate responsibility means even to promote environmental education inside the communities in which we operate businesses...”



“I believe that people who participated to this project, thanks to a better scientific understanding, will facilitate the complex Hera's role through a more environmental-friendly behaviour”

HERA'S PLANNING FOLLOWS A SUSTAINABLE PATH

	2006	2010 E	Change
PERSONNEL			
Training (k h/capita)	122.5	130	6%
Accidents on Job	47.5	42	-12%
Gravity of Damage	1.5	0.9	-40%
CLIENTS			
Compliance Regulatory Standards	95%	100%	5%
Avg waiting time in shops	36	20	-44%
Avg waiting time call centers	34.5	27.5	-20%
ENERGY FROM RENEWABLES			
Total	666	2090	214%
ENVIRONMENT			
Sorted Waste Collection	34%	50%	47%
Water leakage	67	84	25%
Compliance Kyoto Standards (Co2)	>100%	>100%	
White Certificates (k Tep)	29	88	203%
Green Certificates	17	497	2824%

The 2006-2010 strategic plan involves a set of KPIs (Key Performance Indicators) which represent quantitative targets in managing the relationship with the different stakeholders.

The KPIs indicate a visible and substantial improvement expected over the 4-year period.

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FINANCIAL CALENDAR 2007

14 november
Board Meeting to approve third quarter 2007 results

HERA SHARE

Price as of 11 Sept. 2007: 2.97 €
365 dd High-Low: 3.48-2.7 €
Outstanding shares:
1,016,752,029
Mkt Cap: 3.02 bn €

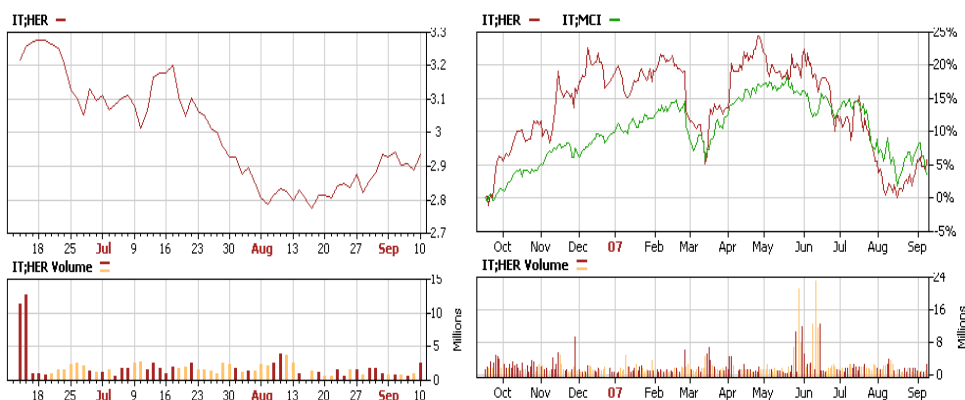
Specialist: Banca IMI

Consensus target price (source Reuters): 3.5€

Hera stock exchange indices

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

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 has outperformed the market until June 2007; over the last 12 months its performance have been in line with the market one, close to 5%. Average daily trading volumes were around 2.2 mn, with peaks over 10 mn in June and July.

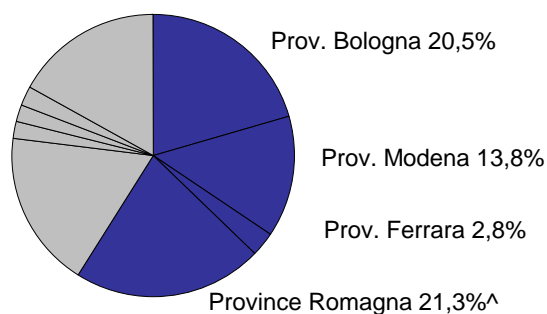
Consensus target price (source Reuters) remained stable at 3.5€, compared to the last issue of this newsletter. At present price levels the gap is around 18%.

In July Banca Leonardo issued its Initiation of Covergae (Recommendation: Buy, Target Price: 3.5€). Presently 14 brokers cover the Hera stock.

Shareholders

Free float 41,6%

Schroders ~2,0%*
Pictet ~2,0%*
Amber C. ~1,9%*



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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