

## Year 2, Issue 1

The information contained in this newsletter is as of 23 March 2007

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For the first time the draft of the HTML version of our FY06 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 FY06 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

## 2006 results released: message from the Chairman of the Board

Dear Shareholders,

Today we release the 2006 full year results, which prove the effectiveness of our business model and confirm the achievability of the 2009 targets we are committed to, according to our strategic plan.

Performance figures for leading items - as showed in the charts below - clearly indicate that Hera succeeds in posting healthy results even when market conditions are unfavourable, thanks to the well-balanced diversification among different businesses and to a rewarding strategy which combines organic growth and M&A.

For the fourth consecutive year, even in 2006 we posted a double-digit operating growth, which show both revenues and EBITDA exceeding by 10% previous year's results.

On one hand, thanks to the careful planning and execution of investments, we succeeded in benefiting from increases in tariffs in Water and Urban Waste and from the incentives which in the gas distributions stem from the industry integration with other companies. On the other hand, in Gas, we had to face adverse weather conditions due to the mild temperature experienced in the last quarter of the year as well as the reduction in the sale price of gas introduced by the Regulator (Autorità per l'Energia Elettrica e per il Gas) through the 134/06 Resolution.

The EBITDA improvement is a result which proves that the positioning choices in each sector and the investment plan have been very rewarding. Such a demanding capital expenditure plan has generated higher depreciation expenses so conditioning the net operating profit expansion, which records anyhow a 7.2% increase year over year.

These positive results allow us to propose to the fore-coming Annual Shareholders' Meeting the distribution of 71 million euros of

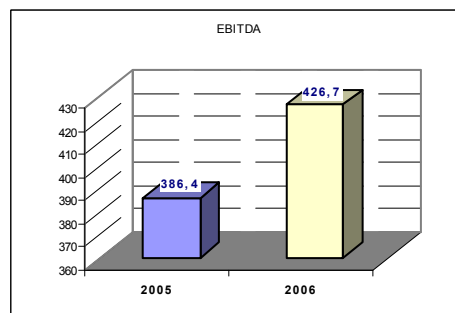
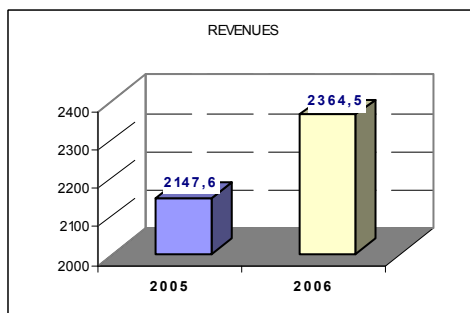


dividends, which implies 8 euro cents per share—this would mean a 14.3% growth over 2005, in line with our strategic plan commitments. We continue to target, within our multiutility business approach, a further strengthening in our power generation capacity as well as in gas procurement. At the same time we continue to invest in order to expand volumes, improve efficiency and make our local control in Waste businesses even more effective.

Besides organic growth, we enjoy the availability of a certain number of opportunities of expanding through external lines. We will evaluate those opportunities with the same careful criteria and the same attention for the return of our shareholders that have characterised the M&A activities over the last four years.

Yours faithfully,

Tomaso Tommasi di Vignano



**FY 2006**

(mn €)

REVENUES 2364.5 (+10.1%)

EBITDA 426,7 (+10.4%)

PRE-TAX PROFIT 179.2 (+5.3%)

INVESTMENTS 321.1

NET FIN.DEBT 1172.9

**A CLOSER LOOK AT OUR PERFORMANCE IN FY 2006**

Revenues present a 10.1% expansion at consolidated level. Such a growth mirrors a 5 percentage points increase in gas prices (+5%) which have no impact on margins since they are a pure 'pass-through' item; the remaining part of the growth is on the other hand linked to higher sales volumes, to better tariffs both in Waste and Water and to the contribution from the newly acquired companies: Aspes e Geat – full-year consolidated – as well as the distribution network bought from Enel in the Modena district, which has been consolidated for six months.

Adverse - i.e. extraordinarily mild - weather conditions produced a negative impact in terms of margin which we can quantify in 15 mn euros; further 4 mn euros less at the EBITDA level can be attributed to the cut in sale prices following the Regulator Resolution n.146/06.

The 10.4% increase at the EBITDA level therefore proves the effectiveness of Hera's strategic choices in terms of business mix and

of linked investments; it also confirms the capability of achieving strong synergies in the integration processes as well as the ability of benefiting from the 'dual fuel' offer.

Net operating profit increases by 7.2%, to 231.3 mn euros, after the absorption of depreciation charges to the extent of 195.4 mn euros (+14.5% y.o.y.).

Hera posts a net profit of 100.2 mn euros (-7.9% y.o.y), which discounts net financial charges of 52.1 mn euros, exceeding by 25.7 mn euros the FY05 amount.

Year-end Net Financial Debt is equal to 1172,9 mn euros, while it was 974 mn as at the end of the previous fiscal year. The rise in net financial charges reflects a higher net working capital exposure which has been wiped off in the meantime - net working capital, which was negative by 238.4 mn euros as at 2005 year-end, has turned into a positive item (+70.5 mn euros) at the end of 2006.

Consolidated tax rate increases from 42.5%

**DISTRIBUTED DIVIDEND FY 2005: 7 cts**

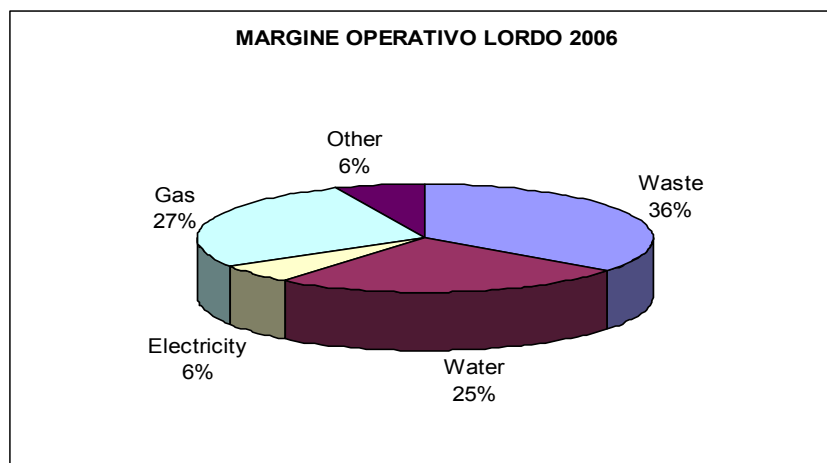
**PROPOSED DIVIDEND FY 2006: 8 cts**

**DATE OF APPROVAL FOR AGM: 25-26 APRIL 2007**

**DATE OF SHARE-OUT: 4 JUNE 2007**

**DATE OF PAYMENT: 7 JUNE 2007**

	2005	2009	Variaz.
<b>Revenues (m€)</b>	2147,6	<b>2364,5</b>	10,1%
<b>EBITDA (m€)</b>	386	<b>426,7</b>	10,4%
<b>NET OPERAT. PROFIT</b>	215,7	<b>231,3</b>	7,20%
<b>PRE-TAX PROFIT</b>	189,3	<b>179,2</b>	-5,30%
<b>NET PROFIT</b>	108,8	<b>100,2</b>	-7,90%



The EBITDA breakdown by industry witnesses the well-balanced profile of Hera's business portfolio.

Waste confirms its prevailing role; its weight increased furthermore from 33.8% in 2005 to 35.5%.

The weight of Water grows, too, from 26.4% in 2005 to 25.2%.

Those increases occurred while Gas showing a decrease in its contribution to the Group operating margin, down from 30.7% to 27.2%.

Such a picture confirms that the 2006 fiscal year produced operating results by business in line with the development path shaped by the industrial plan, which targets in 2009 a lower incidence of Gas—reduced to 19% - while implying an expansion of the activities managed in the Electricity and Waste sectors.

### The Interview

We have not the Interview corner in this issue in order to make room for the the analysis of FY results. The Interview page will be back with the next issue.

## IN THE ENERGY SAVING DAY HERA LAUNCHES NEW EFFECTIVE INITIATIVES



The Hera Group, which is deeply aware of its responsibility as a multi-utility operator providing services in the energy, water and

waste fields to over 2 million and a half inhabitants, has translated its participation to the energy saving day – last 16<sup>th</sup> February, anniversary of the Kyoto protocol – in some concrete initiatives.

First of all, the 2006 report with the results of the projects aimed at supporting a more efficient energy use has been presented—besides inside initiatives, which involved the control of consumptions in Group plants and buildings, Hera for instance has made freely available for clients 1.200.000 low-consumption lamps.

Over the last three years all these initiatives as a whole have generated overall savings of 36.000 tons oil equivalent, that is 44 million of m<sup>3</sup> of natural gas - such figures represent the average annual consumption of some 10,500 families.

Such a results has encouraged Hera to continue to target further savings. Several new projects have been launched; they will take place side by side with the ones already launched in the past.

In addition to the cogeneration development, new connections to distance-heating will be carried out; also the water distribution network will be involved in this efficiency program.

Hera targets to save 35,000 tons of oil equivalent in 2007 and further 100,000 tons over the coming 5 years.

Within the Hera Group a 10% reduction in energy consumption has been targeted. The related savings will be destined to a project of support to the local community.



### PEOPLE AT HERA:

**MANAGEMENT  
ROADSHOW: 6.000  
PEOPLE MET TO  
PRESENT THE  
INDUSTRIAL PLAN  
THROUGHOUT THE  
GROUP**



From the 14<sup>th</sup> and the 28<sup>th</sup> February an inside roadshow with the Chairman, Mr. Tomaso Tommasi di Vignano e and the Chief Executive Officer, Mr. Maurizio Chiarini, took place. The scope: to present the guidelines and the targets of the 2007-2009 industrial plan to the 6.000 staff people throughout the Group.

The roadshow has reached all different offices and facilities across six different districts. The top management effort aimed at informing and at involving all the resources—essential premise to achieve the maximum contribution from everybody to the execution of the business plan.

### 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

## CONTACTS

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## 2007 FINANCIAL CALENDAR

### 26 March

Board Meeting to approve 2006 annual results

### 25-26 April

Annual General Meeting of Shareholders to approve 2006 Results

### 10 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 23 March 2007: 3,15 €  
365 dd High-Low: 3,40-2,37 €  
Outstanding shares  
1.016.752.029  
Mkt Cap: 3,2 bn €

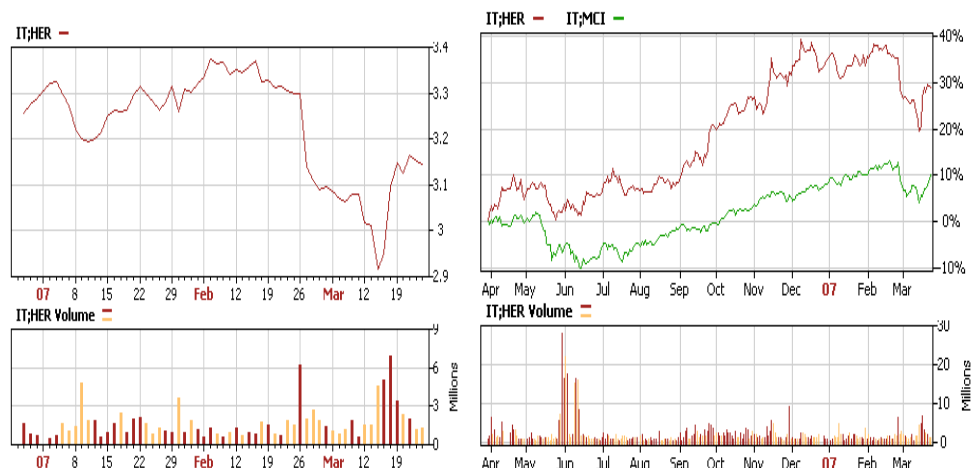
Specialist: Banca IMI

Price target consensus (source Reuters): 3,3€

## Hera stock exchange indices

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

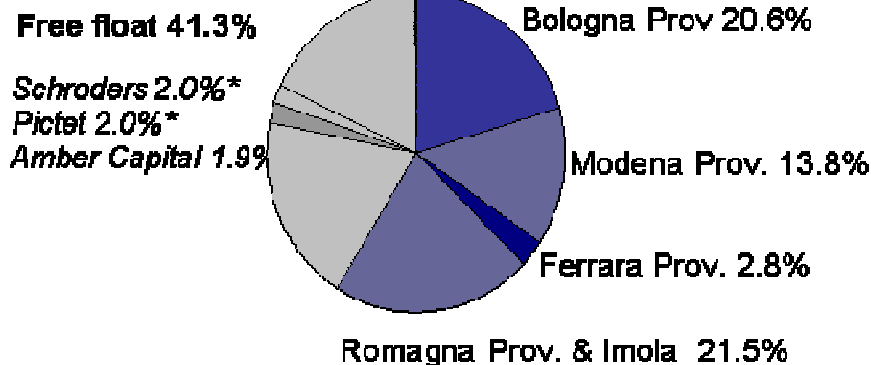
## Hera share 3m performance and 1y vs. MIBTEL



The chart on the right, which shows the price line for the Hera share (red line) vs. the Mibtel Index (green line), proves to which extent Hera outperformed the market, achieving a 30% increase, vs. the 10% gained by the market index on an annual basis.

The steep downturn which led the Hera share price close to 2.9 euro - which you can clearly note in the 3-month chart - has been 50% recovered thanks to the recent bounce, which has taken prices back over the 3.1 euro mark.

## Shareholders



\* Included in free float

The picture of main Hera's shareholders has not changed over the last three months. Please consider that Amber Capital holdings are slightly below 2% (1.9%). 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:

[ir@gruppohera.it](mailto:ir@gruppohera.it)

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