

## Contents

### PAGE 1

Message from the Chairman

### PAGE 2

Focus on first 9 month 2006

Procurement agreement of Algerian gas

Hera within top 10 of Italian website  
ranking

### PAGE 3

Interview

### PAGE 4

Hera Stock

Financial Calendar

Shareholdings

Share price

Services to shareholders

The management presentation of first  
9 month results is available on the  
website:

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

area Investor Relations/Presentations

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# HeraNews

Shareholders Newsletter

## Disclosed 2006 first nine months results: message from the Chairman of the Board

Dear Shareholders,

*The Group results of the first nine month of the year, approved on the 15th November, fully meet our expectations both in term of quality of services delivered and in term of economic and financial results.*

*EBITDA signed an increased by 36% on last year nine month results. This growth was underpinned by all core businesses which record double digit increase in the period.*

*These results confirms, once again, the success of our business model able to combine internal growth together with perimeter expansion through M&A activities.*

*The internal growth was underpinned by 3 main drivers:*

- 1. Synergy exploitation made possible thanks to the integration of activities of merged companies,*
- 2. Tariffs increase in water and waste businesses in accordance to industry law provisions*
- 3. Volumes expansion reached thanks to higher market penetration and cross selling activities mainly concentrated on business clients.*

*Last 16th November a further step towards a more diversified, competitive and secure procurement policy to assure reference market gas needs: through Galsi gas pipeline project—in which Hera held a 9% stake—the Group has assured the procurement of 1 billion cubic meter gas per year from Algeria.*

*While the opportunity to merge Enia (a multi-utility company similar to Hera) is progressing, we are taking into consideration further opportunity to integrate upstream in gas business through the acquisition of a minority stake in one LNG plant which is in progress to obtain*

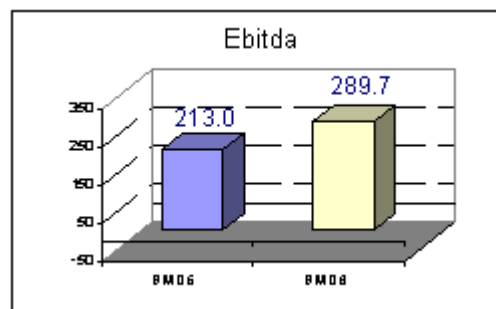
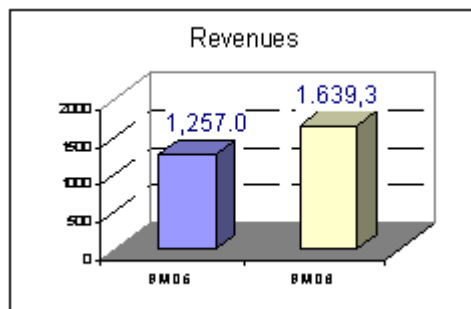


*building authorisations. This option will, once again, assure further stability to gas procurement in future at competitive conditions.*

*We are facing 2007 challenges with a strong commitment to reach the target set in the last business plan disclosed last September and we are ready to consider even further growth opportunities that should emerge on the marketplace.*

*The Chairman*

*Tomaso Tommasi di Vignano*



## 2006 First nine months results

(mn di €)

Revenues 1,639.3 (+30.4%)

Ebitda 289.7 (+36.0%)

Pretax Profit 118.0 (+26.4%)

Capex 336.5 (+29.8%)

Net Financial Debts 1,143.9

## Strategic procurement agreement of gas from Algeria

In line with the announced gas upstream integration strategy Hera has signed on the 16th November 2006 a relevant gas procurement contract with the Algerian Sonatrach.

The Group has guaranteed the procurement of 1 billion cubic meter/per year gas for 15 years, through a new pipeline "Galsi" connecting Algeria to Italy (through Sardinia and Tuscany) which is expected to enter into operation starting from year 2010.

Hera held 9% stake in Galsi project together with Sonatrach (34%) Enel, Edison and other companies.

## TOP TEN WEBRANKING 2006

1	Telecom Italia
2	Edison
3	Unicredit
4	Eni
5	Pirelli & C.
6	Autogrill
7	Benetton
8	Hera
8	Snam Rete Gas
10	Alleanza Assicurazioni

## Focus on 2006 first nine months results

## Interim results

The Group economic and financial results of first nine months of 2006 highlight a trend fully in line with the budget: a positive sign that further comforts the ability of the Group to reach year end target. Revenues increased by 30,4% compared to the first nine month of last year and EBITDA (earnings before tax, Depreciation and Amortisation) record an even better trend (+36%) sustained by a significant contribution from all the core businesses; the increase of EBITDA amount to 76.7 million Euro which was reach despite the adverse trend signed by energy commodity prices.

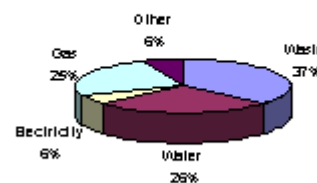
EBITDA increase was related by 62% to the enlargement of Group perimeter which include 3 new entities: Meta – the multi-utility of Modena fully integrated in the beginning of 2006– the electricity network in Modena province (covering 18 municipalities) acquired by Enel and, at last, Geat Distribuzione Gas of Riccione; the remaining part of the growth was underpinned by synergies, organic growth, efficiency gains and the effect of tariff increase in waste and water businesses.

In the first nine months of 2006, the planned capital expenditures were executed producing

higher depreciation charges by 26,4% affecting partially the Operating profit which increased from 123.5 to 156.1 million Euro.

Net Financial Debts move from 974 million Euro of the beginning of the year to to 1,143.9 million Euro as of 30th September 2006 affected by the capital expenditure program which was by 75% funded by cash generation from operations. Hera Group financial soundness is confirmed both in the debt to Equity ratio and in the high incidence of long term debts on the total financial Debt (88%) reached at the end of the period.

EBITDA as of 30th Sept. 2006



## Hera among top ten Italian companies in online financial communication



Hera reached the 8th position in the national Hallvarsson & Halvarsson webranking, which examines the quality and the transparency of the online financial communication of listed companies.

The 2006 Webranking, the fifth edition of H&H Italian ranking, has analysed the website of the 83 largest (in term of market capitalisation) companies listed on the Italian Stock Exchange.

Several financial analysts, fund managers and journalists have been interviewed in order to identify their information needs and the scope of their online researches to which a corporate website need to give an immediate and clear answer. This year a protocol of 126 criteria was set by H&H that has been used to evaluate each website and to realise the ranking.

Hera 8th positioning is even more significant success considering that it gained several positions from the 21st position obtained in the raking of last year.

Hera website is now ranked among the large caps which have significant budgets for the website management. This achievement is a further incentive to continue the ever improving process in place to better Hera communication with stakeholders.

Investor Relations section of the website [www.gruppohera.it](http://www.gruppohera.it) is dedicated to "Retail Investors" and makes available information on the Group and a calculation program to determine the returns on the investment held by Investors in Hera Stocks.

## The Interview

In this Newsletter we interviewed Mr. Stefano Venier, Responsible of Hera Strategic Planning, Business Development and Risk Management.

Mr. Venier, you are part of the management team which has brought Hera to a significant growth in these last years. Which is your professional background?

I was in the Strategic advisory service industry; a good training field to face the current tasks I manage here in Hera.

To which areas is the strategic planning applied?

In Hera we have a strategic planning system focus primarily on the growth of all core businesses in a balanced manner. Hera business model is based on an ever sustainable improvement to increase satisfaction of all main stakeholder. Strategic planning also focus on efficiency optimisation and on operating effectiveness through the development of innovation and rationalisation initiatives.

Is strategic planning process complex?

Strategic planning process carried out in Hera is a straight forward process which is complex because of the involvement of all main departments of the Group organisation.

The first phase of the process, lasting on average one and a half months, my department of Strategic planning, Business development and Risk Management define the main scenario assumptions of all main value drivers, such as oil, gas and electricity prices and for the tariffs of regulated businesses.

Consequently we work out a business plan, in a period of about one and a half months, on the basis of the targets defined by top management involving each business unit following a bottom-up approach; this plan is then integrated with the business plan related to the investments not consolidated within the Group.

Following to this phase we analyse the results obtained with each business unit and in the following month we fine tune the plan and work out a detailed business plan highlighting expectations for each core business and each organisational unit.

The planning process begins in February and ends in July.

How does the planning interest the budgeting?

The first year of the strategic plan is the budget main point of reference.

What incentives are there in place for management to reach planned targets?

We have an incentive system based on a MBO (Management by Objectives), directly linked to

the targets set out in the plan.

Where do you see differences between Hera and the other Italian multi-utility?

I would like to point out that Hera plan is not performed *una tantum*: it sets target for 3 years "rolling". That means that every year Hera updates the business plan extending time horizon by one year. We have adopted a bottom-up approach involving all main the organisational units. We, at last, include expectations on our investments which expected returns most meet our thresholds.

How do European companies face strategic planning processes?

I would say that they usually cover more than 3 years, they often have a top-down approach and, as a consequence, they have less details of results and breakdown by businesses.

Which challenges does strategic planning face today compared to the one faced in the past?

Two main issues are our main focus: the uncertainty of regulatory framework (which is becoming more and more complex due to political factors and due to the increasing attention to financial returns), and the creation of value to stakeholders since Hera is a listed company.

*"In Strategic planning we develop a business plan on the basis of targets set by top management involving every organisational unit following a bottom-up approach"*



Stefano Venier –Head of Strategic Planning of Hera Group

*"...Our planning is mainly focused in guaranteeing a balanced growth of all core businesses..."*

*"...The Growth is pursued through a sustainable balance in order to satisfy all main stakeholder's interests."*

## CONTACT US

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## HERA SHARE

Price as on Dec. 12, 2006: 3,33 €  
Max-Min a 365 days: 3,42-2,16 €  
Outstanding Sh.: 1.016.752.029  
Capitalisation: 3,39 b €

Specialist: Banca IMI

Consensus Target Price: 3.17€

## FINANCIAL CALENDAR 2006

27th March  
BoD for the approval of 2006  
annual Financial Report

## Hera stock exchange indices

Midex—Borsa Italiana

DowJones Stoxx TMI

TMI Utility

Axia Ethical

Kempen/SNS Smaller Europe SRI  
Index

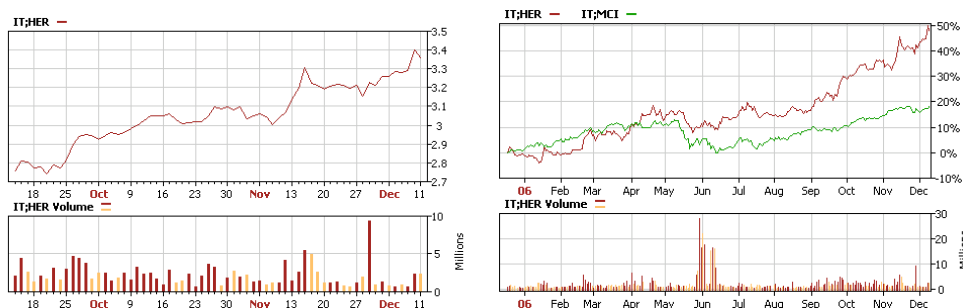
## DIVIDEND

Dividend paid in 2006: 7cts (€)

Date of share-out: 5 June 2006

Date of payment: 8 June 2006

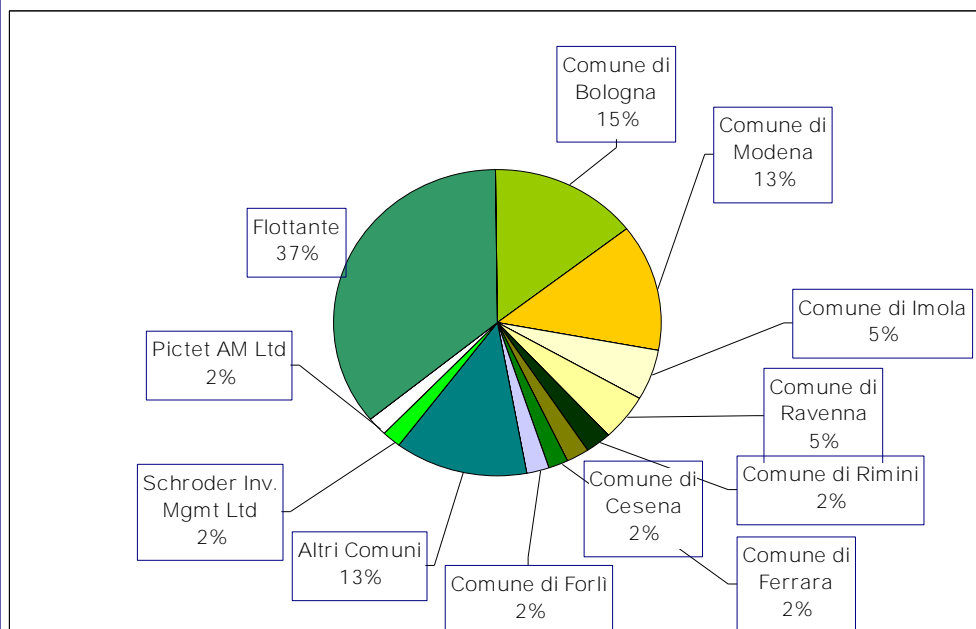
## Hera 6 months and 12 months performance vs. MIBTEL



The first graph sets out Hera stock price (red line) of last 3 months which highlights a constant and positive trend; the second graph sets out a comparison with Hera and Mibtel index (green line) on a 12 months basis and highlights that Hera has outperformed the Italian stock exchange realising an increase of about 50% (vs. a 20% of Mibtel index).

A remarkable increase of the positive trend, relative to the market, was recorded in the last 4 months after the presentation of the New Business plan disclosed in September.

## Shareholdings



The main changes in Hera's shareholding, highlights a step up of Pictet Asset Management stake which has reach 2% as declared on the 7th December 2006. The "relevant" institutional shareholders (with a stake above 2%) includes also Schroder Investment Management Ltd with a stake above 2% (17th July 2006) and Amber Capital who held a stake slightly below 2%.

We await your comments on our newsletter. Please send them to:  
ir@gruppohera.it