

Next issue: December 2006

Year1, Number 2

The Newsletter contains data and information as of 9th November 2006

Contents

PAGE 1

Message from the Chairman of the Board

2006-2009 business plan

PAGE 2

Focus on business plan targets

PAGE 3

Interview

Hera and SRI investors

PAGE 4

Hera and the Stock Exchange

Financial Calendar

Shareholders

Share price

Services to Shareholders

The business plan 2006-2009 management presentation is available in section "Investor Relations/strategic projects" of our corporate website

www.gruppohera.it

HERA SPA

Head quarters: Viale C. Berti Pichat, 2/4

40127 BOLOGNA

T.+39 051 28.71.12

F.+39 051 28.14. 030

www.gruppohera.it



HeraNews

Investor's Newsletter

Disclosed new business plan 2009 target: message from the Chairman of the Board

Dear Shareholders,

on the 13th September, we have disclosed and discussed with investors the good results of first half 2006 and the new strategic plan 2006-2009 which confirms the targets set last year for the year 2008 and adds new growing targets for 2009.

The financial highlights, set out in the table below, confirm our commitment to continue the fast growth with turnover up by 7% cagr, improving profitability; our main goal is to reach 650 million euro Ebitda in 2009. The significant capital expenditure planned will be fully funded by business cash generation; therefore we expect financial structure (D/E) to remain balanced in 2009. Return on Invested Capital will reach 14%. In spite of these results we will be able to distribute increasing dividends by 15% cagr through out the period 2006-2009.

The strategic guide lines are the same that has driven to successful results in the past. Growth will pursued through:

- 1) Upstream integration in non-regulated businesses, through low risk-profile asset development projects, in order to enhance profitability;
- 2) Organic Growth, underpinned by a proactive marketing approach on customer base, through cross-selling of liberalised services and through the expansion of reference market;
- 3) Synergy Exploitation and efficiency improvement also through innovative business solutions and business rationalisation;
- 4) Sustainable approach to development through a better focus on the Group Mission, which commit us to satisfy our stakeholders.

Along with this organic development of the businesses we will pursue M&A opportunities which responds to our value creation criteria and "full merger model" (unique within the Italian industry); this model has good track records in quickly integrating companies in our Group extracting synergy potentials and benefiting from economies of scale.

The market is facing a particular momentum where several different aggregation options



opens up for Hera. First option, for which we have already obtained a mandate from our main shareholders to start negotiations, is to create a unique regional multi-utility player through merging with Enia. Further opportunities, which would represent a major size increase for the Group, are the mergers with companies such as Iride, ASM and ACEA thanks to their territorial contiguity with Hera. Third option is to keep on growing by progressively merge medium-small sized companies in surrounding areas.

I confirm that track records, ambitious and challenging future targets together with the new aggregation opportunities mentioned does comfort us on putting all our efforts to build up the future we aim to conquer.

The Chairman

Tomaso Tommasi di Vignano

Business Plan	2005	2009	cagr *
Turnover (m€)	2,148	2,784	6,7%
Ebitda (m€)	386	650	13,9%
Net Invested Capital (md€)	2,5	2,9	
ROI (%)	9	14	
ROE (%)	7	12	
D/E (Debt to Equity ratio)	0,7	0,6	
Dividends (€ per share)	0,07		15%

* compounded average growth rate

FIRST HALF 2006 (m€)

REVENUES	1,198.0 (+33.7%)
EBITDA	209.9 (+35.5%)
PRE TAX PROFIT	99.3 (+38.1%)
CAPEX	255.9 (+86.8%)
NET FINAN. DEBTS	972.4

Focus on first half 2006 results and Business plan target of 2009**First Half Results**

First half 2006 results of Hera Group highlight a growth in line with budget and business plan 2006-2009: turnover was up by +34% increasing for about 302 million Euro compared to first half 2005. About two third of that enhancement is underpinned by the merger and integration of Meta and one third was related to the energy cost increases and to the expansion of water and waste business.

Ebitda reached 210 million euro (up by +36% compared to first half 2005), mainly thanks to the contribution of synergies exploited which were able to more than off set the negative impact on margins of higher energy costs. The Group intense expansion momentum was reflected also in the capital expenditure which has brought depreciation charges up to 88 million Euro (which compares to the 66 million Euro of first half 2005). Nevertheless net profit has increase by 27% up to 59.4 million Euro also thanks to a better financial management which permit to maintain same interest expenses of first half of 2005 despite higher financial debts. Financial debt remains at same level of beginning of the year (973 million Euro) thanks to cash generation of the business that was more than able to cover 256 million Euro of capital expenditure (more than double the capital expenditure of first half 2005) and dividend pay out for about 71 million Euro.

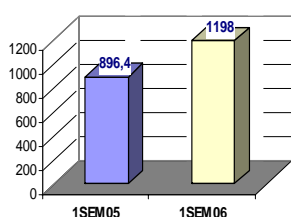
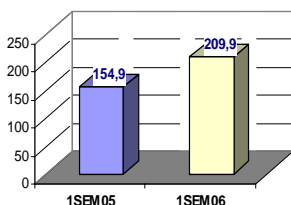
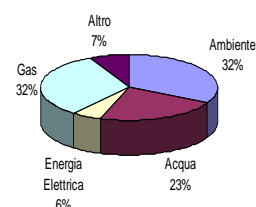
The Business Plan 2006-2009

Turnover is expected to increase thanks to the dual fuel proposal on energy services, thanks to a physiological increase in volumes of activity and to water& waste tariffs increase (in line with national law provisions).

Ebitda is expected to grow at a rate which doubles the one expected for turnover thanks mainly to the synergies potentials related the recent mergers, thanks to the efficiency improvements and to the contribution of the new plants under construction (in particular those which generate energy for renewable sources, the so called Waste-to-Energy).

Capital Expenditure (of about 1.42 billion Euro), is the main growth driver and the main lever to reach higher levels of return on invested capital (ROI). The capital expenditures are equally distributed between development and maintenance capex. Asset base expansion is focused on power generation plants (WTE, CCGT, OCGT and other renewables) which highlights returns above 10% (IRR: internal rate of return); maintenance capex mainly relates to the water net works which will be recovered through the regulated tariff.

These expectations regards the Group "as is today" and does therefore not include the several further expansion opportunities through Mergers and acquisitions.

1H2006 REVENUES**1H2006 EBITDA****E1H2006 BITDA BY BUSINESS****The most recent growth though M&A**

Hera has been growing significantly in last 3 years (since establishment) mainly thanks to an intense merger and acquisition (M&A) activity which is still guaranteeing benefits in term of synergy exploitation. These developments through M&A has continued in 2006 as shown in the table and described in the following:

Company	Date of Announcement	Date of Execution	Transaction value
Modena Province Electricity Network	13 March	27 June	107.5
Geat Distribuzione Gas	16 January	29 June	12.5
Aspes Multiservizi	-	27 July	16.6
SAT	8 August	19 July	34.0

Electricity Network in Modena Province

Hera acquired from Enel the electricity distribution network in 18 municipalities of Modena province. The network is 3.700 km long and serves about 80.000 clients.

Geat Distribuzione Gas

Hera acquired and merged a gas distribution company operating in the territory of Riccione in Emilia-Romagna region. Consideration given to municipality of Riccione (100% owner of the company) was 5,526,083 Hera shares. Geat has a customer base of about 20,000 people to whom it distributes 40 million cubic meters of gas per year. With this merger, Hera has almost reached 95% coverage in reference market.

Aspes Multiservizi

Hera has strengthened its role as industrial partner in Aspes by increasing its stake up to 49,79%. Aspes is active in water, energy and waste businesses serving about 44,000 clients in Pesaro market place.

SAT (Servizi Ambienti Territorio)

Hera has won the bid to acquire 46.5% of SAT share capital. SAT is a multiutility company in the province of Modena operating in waste water and gas distribution businesses. SAT achieved 15 million Euro Ebitda in 2005 with a turnover of about 62 million Euro.

Interview

In this number we interview **Jens Klint Hansen**, the Group Investor Relations Manager.

In Hera website its possible, beside a section dedicated to Hera citizenship, to find a specific page dedicated to ethical investors within the Investor Relations section. Is Hera targeting this kind of investors?

Definitively yes. Today, the so called Social Responsible Investors have about 1 trillion € of assets under management worldwide and, I think that all listed company should not ignore this opportunity. Social responsibility is also a relevant issues for investor relations considering that up to 35% of non-SRI investors in U.K. use "sustainability criteria" to make a first selection among stock they "keep in the radar".

Which is the rational of adopting sustainable criteria for investment selection?

Simple. Investors concentrate o companies which can guarantee good results, returns, capital gains and dividend to shareholders in the "long term". Long term performance are possible only if companies adopt a "sustainable" approach which means a social responsible approach toward all stakeholder.

Is Hera appealing for an SRI investor?

Hera focus on building a relationship with SRI investor is not only because of their increasing relevance on asset management market, but because "sustainability" has a relevant importance within Hera growth strategy. We are a company that intensively use resources – water, air and soil - essential for the sustainability of live on earth. We do fell to have the responsibility to "well manage" those environmental and social resources. As a matter of fact we are the largest Italian player in the environmental business (37% Ebitda relates to waste business and 15% Group Ebitda comes from energy production from renewable sources). In Hera's DNA , as in the core of our mission, you find a sustainable approach focused on balancing and satisfying stakeholder's interests. Investor do immediately understand that sustainability in Hera is a real mission and not just good intentions.

This means that you have set up specific communication tools regarding Hera sustainability?

Communication is an essential part of Hera sustainability approach. Since beginning (2002) Hera published a Sustainability Report; the environmental report that were performed by the companies before their merger into Hera have been developed and enriched in order to highlight also the social and financial impact of business factors and to enhance the returns for employee, customers, suppliers and social environment. We now 4 year track record which highlights our performance with a high degree of details and transparency in our KPIs that international investors do consider to be in line with the best practise.

Does the organisational structure reflect this approach?

Sustainability in Hera is concrete thanks also to the organisational structure: functions of Quality

and Assurance, Corporate social responsibility, Communication and Investor relations are located directly in staff to the CEO or the Chairman himself.

What about last Sustainability report results?

Quite Impressive. In 3 years the added value available to stakeholders increased at a 27% cagr.

What targets do you have in future?

The 2006-2009 business plan just disclosed to the financial community includes targets on the main KPIs measuring our social responsibility: we have enclosed targets for the main environmental KPIs, 3 for customer care, 4 related to "clean energy production", along with other KPIs measuring satisfaction of people working in Hera. Page 39 of our management presentation of the business plan 2006-2009 sets out the KPI targets for 2009 (available on our website in section Investor Relations/strategic projects) .

Is Hera management remuneration system able to incentive management to reach these sustainability targets?

Already 100% of senior management have a remuneration linked to the budgeted financial and sustainability targets. Within 2009 also 100% of managers will be have their remuneration linked to this system that incentives to reach the targets.

Can you mention an example?

Investor relations, for example, have the target to create relations with a certain number of SRI investors; Water division director have the target to reduce water pipeline leakage, and so on ...

What result did you concretely reach in the investor relations?

We have taken part to a conference organised by ODDO Securities in Paris where we came in contact with several SRI investors which were particularly interested in companies running the waste business. Through one-on-one meetings we have build up a good relation with a dozen of SRI investors. Hera stock is by the way included in Kempen SNS Smaller Cap SRI Index since 2002.

Do you have any independent rating?

Yes, Axia (independent Italian Broker) is regularly covering Hera with an analyst report providing an ethical rating; in the last 2 years we have been confirmed with an A+++ (top rating), which we are proud of. These rating does effectively summarise the efforts and the results of Hera sustainable policy and is a good tool to introduce Hera to new investors.

"In Hera's DNA , as in the core of our mission, you find a sustainable approach focused on balancing and satisfying stakeholder's interests"



Jens K. Hansen, Head of Investor Relations for Hera

"Hera stock is by the way included in Kempen SNS Smaller Cap SRI Index since 2002"

"Axia analyst report is providing an ethical rating; in the last 2 years we have been confirmed with an A+++ (top rating)"

Sustainability achievements

IThe 13th June the Sustainability report 2005 was published containing the numbers of Hera commitment both on the economic-financial side and on the social and environmental side confirming the strategic relevance of all these issues for Hera. Hera has delivered in 2005 an Added Value to its stakeholders (employee, shareholders, clients and suppliers, authorities and local municipalities) about 763 million Euro and invested further 331 million Euro in capital expenditures. Plant emissions were in 2005 much better that the standards set by law.

The Group is currently setting in place energy-saving plans both for clients— through the distribution of low consumption light bulbs— and for the Group high energy consumption plants.

CONTACT US

Investor Relations Department
Head: Jens K. Hansen
T. +39 051 287737
jens.hansen@gruppohera.it

FINANCIAL CALENDAR 2006

14 November
Board meeting to
approve third quarterly
report

HERA SHARE

Price as on Nov. 9, 2006: 3,04 €
Max-Min a 365 days: 3,18-2,10
€
Outstanding Sh.: 1.016.752.029
Capitalisation: 3,09 b €

Specialist: Banca IMI

Consensus Target Price
(source: Reuters): 2,95 €

Hera stock exchange indices

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

DIVIDEND

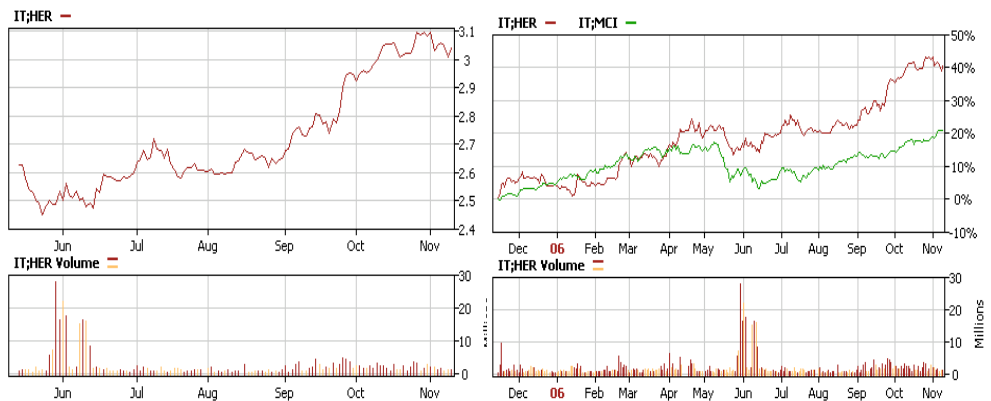
The dividend paid in 2006 is
7cts (€)

Date of share-out: 5 June 2006

Date of payment: 8 June 2006

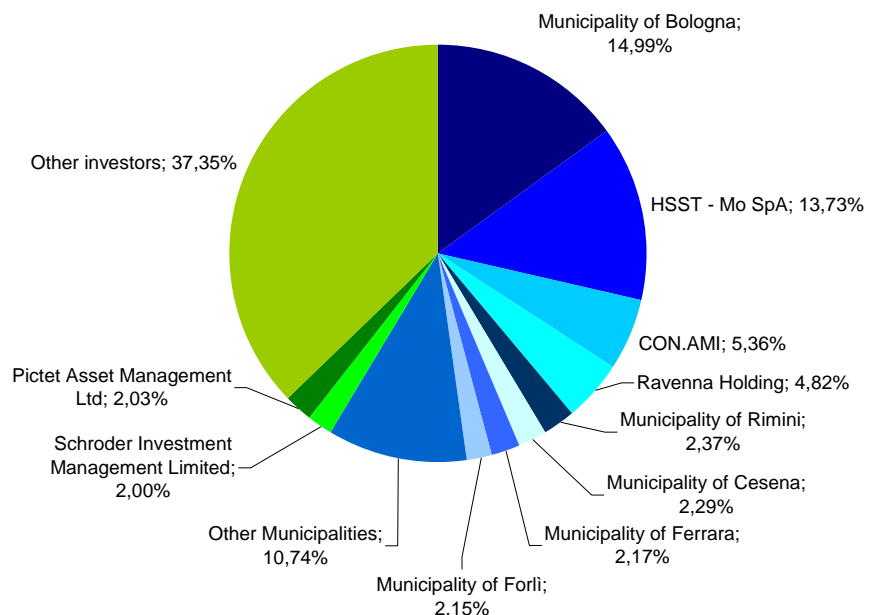
Next issue:
December 2006

Hera 6 months and 12 months performance vs. MIBTEL



In the last 12 month Hera (red graph) has significantly outperformed MIBTEL index (green graph), signing a +40% increase, vis a vis a +20% of the Italian stock exchange average (Mibtel index). In particular, significant trading activities were recorded in June – as shown in the lower part of the graphs – which represent a solid base to the further positive trend signed by the stock in the following months. Starting from the disclosure to the financial community of the new business plan 2006-2009 (September 13) up to date the stock price has signed a further significant improvement underpinned by the wide consensus obtained from investors regarding the strategy the management has intention to pursue in the next three years.

Shareholders



In the last months the shareholding structure has shown significant changes regards the main shareholders. On July 17th Schroder Investment Management Ltd reached a stake of 2.001% of Hera sharecapital. Amber Capital has announced on the 6th October, on the contrary, to have reduced their stake below 2% down to 1.87%. At last, on the 26th October, Pictet Asset Management Ltd. rounded up their holdings to 2.026%.

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